

Argyll and Bute Council
Comhairle Earra Ghaidheal agus Bhoid

Corporate Services
Director: Nigel Stewart



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12 November 2003

NOTICE OF MEETING

A meeting of the **AUDIT COMMITTEE** will be held in the **COUNCIL CHAMBER, KILMORY, LOCHGILPHEAD** on **THURSDAY, 8 NOVEMBER 2001** at **3:00 PM**, which you are requested to attend.

Nigel Stewart
Director of Corporate Services

BUSINESS

1. **PRESENTATION BY AUDIT SCOTLAND**
2. **APOLOGIES FOR ABSENCE**
3. **DECLARATIONS OF INTEREST**
4. **MINUTES**
Audit Committee 26 July 2001 (PAGES 1 - 4)
5. **CORPORATE GOVERNANCE IN LOCAL GOVERNMENT**
Report by Director of Finance (PAGES 5 - 8)
6. **REVENUE BUDGET MONITORING 2001/2002**
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8. **PROPRIETY AND AUDIT IN THE PUBLIC SERCTOR**
Report by Director of Finance (PAGES 49 - 52)
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10. AUDIT OF ACCOUNTS 2000/2001: MEMBER'S LETTER, AUDIT CERTIFICATE AND CERTIFIED ACCOUNTS

Report by Director of Finance (PAGES 129 - 204)

11. PROGRESS REPORT ON EXTERNAL AUDIT REPORTS TO COUNCIL FROM 1999/2000 TO PRESENT

Report by Internal Audit Manager (PAGES 205 - 224)

12. PROGRESS REPORT ON INTERNAL AUDIT PLAN 2001/2002

Report by Internal Audit Manager (PAGES 225 - 228)

AUDIT COMMITTEE

Vincent Bradbury (Vice-Chairman)
Councillor Gordon McKinven
Graham Michie
Councillor John Stirling (Chair)

Councillor Alistair MacDougall
Councillor James McQueen
Councillor Len Scoullar

Contact: Ruby Campbell

Tel. No. 01546 604331

ARGYLL AND BUTE COUNCIL

**MINUTES of MEETING of the AUDIT COMMITTEE held in the COUNCIL CHAMBER,
KILMORY, LOCHGILPHEAD on THURSDAY, 26 JULY, 2001
at 2.00 p.m.**

Present: Councillor John Stirling (In the Chair)

Councillor Alistair MacDougall	Mr Vincent Bradbury (Vice-Chair)
Councillor James McQueen	Mr Graham Michie
Councillor Len Scoullar	

Attending: Charles Reppke, Head of Democratic & Community Services
Stewart McGregor, Director of Finance
Ian Nisbet, Chief Internal Auditor
Dr Arthur Midwinter
Ranald Brown, PricewaterhouseCoopers

Apologies: Councillor Gordon McKinven

1. MINUTES

The Committee approved the minutes of the Audit Committee of 21 March 2001, as a correct record.

2. (a) UNAUDITED 2000/2001 ANNUAL ACCOUNTS

There was submitted report by the Director of Finance intimating that the unaudited annual accounts had been lodged with the Controller of Audit by 30 June 2001 as required by statute.

Decision

1. To note the submission of the unaudited accounts within the statutory timescale.
2. To note with concern the very small surplus now retained.
3. To note the outturn position for the current year was under investigation by a group of Members and Officers.

(Ref: Report by Director of Finance dated 19 June 2001, submitted)

(b) REVENUE BUDGET MONITORING

There was submitted report by the Head of Accounting setting out the current Revenue Budget Monitoring process adopted by Argyll & Bute Council.

Decision

To note the terms of the report and to record the Committees concern that the procedures outlined therein had failed to identify the over expenditure in Departmental Budgets.

(Ref: Report by Head of Accounting dated 11 July 2001, submitted)

(c) IMPROVING BUDGET MONITORING

There was submitted report by the Head of Accounting highlighting that the Council would require to make improvements to its arrangements for budget monitoring following the over expenditure in Education and Transportation & Property Services in 2000/2001. It was noted that there was likely to be adverse comment by the external auditors and that the Council should therefore take action now to achieve the improvements in budget monitoring necessary to prevent a future overspend.

Decision

1. To note the terms of the report to the Management Team.
2. To suggest to the Director of Finance that he utilise the "traffic light" system for reporting to members on budget monitoring.
3. That the Head of Accounting provide an update report to the next meeting.

(Ref: Report by Head of Accounting dated 26 June 2001, submitted)

3. ACCOUNTS COMMISSION OVERVIEW REPORT 1999/2000

There was submitted Overview Report by the Accounts Commission for Scotland which was submitted to Members for information.

Decision

To note the terms of the report.

(Ref: Report by Accounts Commission dated 30 March 2001, submitted)

*** 4. REVIEW OF INTERNAL AUDIT SERVICE**

The Director of Finance reported that he had instructed a Best Value Review of the internal audit service conducted by Professor Arthur Midwinter with a view to securing improvements in the overall level of resources targeted at the internal audit process. The report submitted by Professor Midwinter set out a range of actions which he recommended should be adopted by the Council to improve the internal audit service within the Council and he highlighted to members the significant parts of the report.

Decision

To recommend to the Council:

- 1 (a) That they increase the internal audit budget by £80,000 per annum to allow improvements to be made recognising that this will reflect the high cost of using private firms compared with direct provision in the short term. This sum to be financed from loan charges savings generated by the Department of Finance through debt rescheduling.

- (b) (i) That the internal audit plan be reviewed, reducing the total number of core audit days making provision for a value for money perspective in audit activity and developing performance assessment and best value appraisal work and
- (ii) that the Council should identify a key player who will develop the managerial and Value for Money/Best Value roles within the service.
- (c) That the Council negotiate a 3 year partnership agreement with an appropriate external contractor to ensure continuity of provision meantime including managing the function and some training in management/ Value for Money/Best Value techniques.
- (d) That the Council review the matter in 3 years time to assess whether partnership or direct service delivery is the way ahead for the Council thereafter.
- (e) That the Chief Internal Auditor should continue as at present to report to the Director of Finance to maintain corporate identity but with the right to report directly to the Chief Executive and the Audit Committee if there is any disagreement with the Director of Finance.

(Ref: Report by Professor Arthur Midwinter, submitted)

5. FINAL REPORT ON 2000/2001 AUDIT PLAN

There was submitted amended report by the Internal Audit Manager detailing audits performed by internal audit during 2000/2001.

Decision

To note the terms of the report.

(Ref: Report by Chief Internal Auditor dated 25 June 2001, submitted)

6. PROGRESS REPORT ON INTERNAL AUDIT PLAN 2001/2002

There was submitted interim progress report on the audit work performed by internal audit during the first quarter 2001/2002 with the intention of keeping Members up to date with progress with the Audit Plan which they had previously approved.

Decision

To approve the annual audit plan for 2001/2002 and note the progress made so far.

(Ref: Report by Chief Internal Auditor dated 25 June 2001, submitted)

7. PROGRESS REPORT ON EXTERNAL AUDIT REPORTS TO COUNCIL FROM 1999/2000 TO PRESENT

There was submitted report by the Chief Internal Auditor in regard to the follow up reviews conducted by internal audit to ensure that the recommendations contained in the Pricewaterhousecooper's final report to Members for 1999/2000 had been implemented. The report also contained an appendix detailing reports received from Pricewaterhousecooper since the 1999/2000 final report to Members.

Decision

To note the terms of the report and the implementation of the report in regard to budgeting had only been partially complied with.

(Ref: Report by Chief Internal Auditor dated 25 June 2001, submitted)

8. ANTI FRAUD AND ANTI CORRUPTION POLICY

There was submitted report by the Director of Corporate & Legal Services which set down recommended policies in regard to Anti Fraud and Anti Corruption Policy Documents which were submitted to Members for their approval.

Decision

To approve the terms of the Anti Fraud and Anti Corruption Policies as submitted to the Council and to request the Director of Corporate & Legal Services to circulate these to Directors for implementation.

(Ref: Report by Director of Corporate and Legal Services, submitted)

ARGYLL AND BUTE COUNCIL
FINANCE

AUDIT COMMITTEE
8 NOVEMBER 2001

CORPORATE GOVERNANCE IN LOCAL GOVERNMENT

1 SUMMARY

The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) have issued a joint publication making specific recommendations to local authorities on good corporate governance. The publication has been endorsed by the Accounts Commission and the Convention of Scottish Local Authorities. A copy of the statement is available for Members' reference.

Three fundamental principles of Corporate Governance have been identified as-

- Openness
- Integrity
- Accountability

CIPFA have built upon these three principles and redefined them to reflect the public services context. For local authority purposes, the principle of openness has been enhanced to emphasise the need to engage with their communities on an inclusive basis, taking care to include the many distinct communities of place and of interest, including those often referred to as "hard to reach" parts of the community. The principles have been set out on Appendix 1.

The publication puts corporate governance into a framework, as follows:-

1. Community Focus

Local authorities should work for and with their communities, exercise leadership and undertake an ambassadorial role.

2. Service Delivery Arrangements

Local authorities should ensure that continuous improvement is sought, agreed policies are implemented and decisions carried out.

3. Structures & Processes

Local authorities should establish effective political and managerial structures and processes to govern decision making and the exercise of authority within the organisation.

4. Risk Management & Internal Control

Authorities need to establish and maintain a systematic strategy, framework and processes for managing risk.

5. Standards of Conduct

Openness, integrity and accountability of individuals within a local authority form the cornerstone of effective corporate governance. The reputation of the authority depends on the standards of behaviour of everyone in it, whether members, employees or agents contracted to it.

In each of the five foregoing areas, corporate governance should be demonstrated by arrangements which ensure that there is accountability, effectiveness, integrity and openness and inclusivity in all matters.

CIPFA and SOLACE have published a detailed Guidance Note to assist Councils' in making their arrangements on corporate governance. The Chief Executive has instructed the Director of Corporate and Legal Services to prepare a local code on corporate governance to ensure that the Council may be able to include a statement in their financial statements for the 2001/2002 financial year to the effect that a review of existing corporate governance arrangements has been carried out and a local code of corporate governance has been adopted.

2. **RECOMMENDATIONS**

Internal Audit should monitor arrangements and report back to the Audit Committee on the implementation of the local code of corporate governance in accordance with the timescale of 31 March 2002 stipulated in the publication.

Stewart McGregor
Director of Finance
8 October 2001

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CORPORATE GOVERNANCE

PRINCIPLES

Openness and inclusivity

Openness is required to ensure that stakeholders can have confidence in the decision-making and management processes of local authorities, and in the approach of the individuals within them. Being open through genuine consultation with stakeholders and providing access to full, accurate and clear information leads to effective and timely action and lends itself to necessary scrutiny. Openness also requires an **inclusive** approach, which seeks to ensure that all stakeholders and potential stakeholders have the opportunity to engage effectively with the decision-making processes and actions of local authorities. It requires an outward focus and a commitment to partnership working. It calls for innovative approaches to consultation and to service provision.

Integrity

Integrity comprises both straightforward dealing and completeness. It is based upon **honesty, selflessness and objectivity**, and high standards of propriety and probity in the stewardship of public funds and management of an authority's affairs. It is dependent on the effectiveness of the control framework and on the personal standards and professionalism of the members and staff within the authority. It is reflected in the authority's decision-making procedures, in its service delivery and in the quality of its financial and performance reporting.

Accountability

Accountability is the process whereby local authorities, and the members and staff within them, are responsible for their decisions and actions, including their stewardship of public funds and all aspects of performance, and submit themselves to appropriate external scrutiny. It is achieved by all parties having a clear understanding of those responsibilities, and having clearly defined roles through a robust structure.

The concept of **leadership** overarches these three principles. The principles described above can only be adhered to if leadership is exercised through:

- The local authority providing vision for its community and leading by example in its decision-making and other processes and actions
- Members and managers conducting themselves in accordance with high standards of conduct.

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ARGYLL AND BUTE COUNCIL**AUDIT COMMITTEE
8 NOVEMBER 2001****FINANCE**

REVENUE BUDGET MONITORING 2001/2002

1 SUMMARY

At the meeting of the Audit Committee on 26 July 2001, consideration was given to reports covering the Unaudited 2000/2001 Annual Accounts and Revenue Budget Monitoring. Concern was expressed by the committee on the very small amount of surplus now retained and an update was requested from the Head of Accounting to the next committee meeting on Revenue Budget Monitoring.

The attached reports show the amount of detailed information produced and circulated to Directors and Spokespersons, covering year to date actual expenditure compared to year to date budget, a resulting variance and an updated projection of expenditure for the year compared to the approved annual budget, again with any projected variance. Detailed explanations of variances are also provided. In addition, a copy of the summary report presented to the Strategic Policy Committee on 6 September 2001, is also attached.

The purpose of providing copies of this information to the Audit Committee is to allow members of the Audit Committee to see the considerable amount of information currently being provided to Directors, Spokespersons and the Strategic Policy Committee in connection with monitoring of the revenue budget.

The Head of Accounting, Bruce West, will make a presentation to the Audit Committee on the Revenue Budget Monitoring process, outlining any further work and improvements to the monitoring exercise.

2. RECOMMENDATIONS

The committee note the Revenue Budget Monitoring process in place and in view of the Council's tight financial position, continue to receive reports from the Head of Accounting on the effectiveness of the process.

Stewart McGregor
Director of Finance
9 October 2001

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Argyll Bute Council - Objective Summary

Period: June 01-02

YTD Actual 2000s	YEAR TO DATE POSITION			PROJECTED FINAL OUTCOM			YTD Var %	YTD Var %	Proj Actual Budget 2000s	Projected Variance 2000s	Proj Var %
	YTD Budget 2000s	YTD Variance 2000s	YTD Var %	Projected Budget 2000s	Projected Variance 2000s	Proj Var %					
14,245	14,085	(160)	-1%	62,047	(10)	0%	Education				
3,855	4,129	234	6%	25,007	(50)	0%	Housing & Social Work				
4,630	4,766	126	3%	19,775	(134)	-1%	Transport & Property Services				
2,818	3,632	814	22%	20,019	(205)	-1%	Development & Environment Services				
1,951	1,990	39	2%	299	(60)	0%	Central Support Services				
(807)	(646)	(161)	-25%	2,781	(242)	-10%	Council Services To the Public				
336	299	(37)	-13%	2,592	0	0%	Corporate & Democratic Core				
2,938	2,943	5	0%	11,756	0	0%	Joint Boards				
(3,161)	(3,079)	81	-3%	0	0	402%	Statutory Housing Revenue Account				
(5,150)	(5,150)	0	0%	2,656	80	0%	Capital Financing Adjustment				
46	86	40	47%	429	0	0%	Surplus Properties				
21,741	21,047	(694)	-3%	147,339	(881)	(0)	Total Net Expenditure				
(28,623)	(28,623)	0	0%	(113,244)	0	0%	Aggregate External Finance				
0	0	0	0%	(34,389)	0	0%	Contribution from DLOBSO				
0	0	0	0%	(255)	0	0%	Local Tax Requirement				
0	0	0	0%	(147,899)	0	0%	Additional Local Tax Income				
(28,623)	(28,623)	0	0%	(147,899)	0	0%	Transfer from HRA Reserve				
(482)	(357)	(125)	-33%	(359)	(124)	0	TOTAL FUNDING				
(482)	(357)	(125)	-33%	(359)	(124)	0	DEFICIT/SURPLUS FOR PERIOD				
							Projected Variance = Approved Budget - Projected Outturn				

Period: June_01-02

	YEAR TO DATE POSITION				PROJECTED FINAL OUTTURN				Variance From Prev £000s	
	YTD Actual £000s	YTD Budget £000s	YTD Variance £000s	YTD Var %	Projected Outturn £000s	App Annual Budget £000s	Projected Variance £000s	Proj Var %		
Service Strategy & Regulation	228	112	(116)	-104%	381	381	0	0%	381	0
Pre-Primary Education	(438)	(93)	345	-371%	787	787	0	0%	787	0
Primary Education	5,608	5,169	(441)	-9%	22,722	22,722	0	0%	22,722	0
Secondary Education	6,365	6,172	(193)	-3%	26,574	26,574	0	0%	26,574	0
Special Education	897	855	(42)	-5%	3,815	3,815	0	0%	3,815	0
Education Other Than at School	(21)	23	44	192%	95	95	0	0%	95	0
Community Education	283	309	26	8%	1,407	1,407	0	0%	1,407	0
Careers	14	7	(7)	-119%	47	47	0	0%	47	0
Schools	65	461	396	86%	2,857	2,857	0	0%	0	(2,857)
Support Services	544	458	(88)	-19%	(24)	(24)	0	0%	(24)	0
Transport	700	615	(85)	-14%	3,579	3,579	0	0%	3,579	0
Unspent SINA monies	0	0	0	0%	10	0	(10)	0%	0	0
Repayment Proposal Strategic Policy Committee 16 August 2001	0	0	0	0%	(193)	(193)	0	0%	0	0
Total Net Expenditure for Education	14,246	14,086	(160)	-1%	62,057	62,047	(10)	0%	59,363	(2,687)

Projected Variance = Approved Budget - Projected Outturn

YTD Variance = Budget - Actual

Revenue Budget Monitoring
Variance Explanations
For the Year to Date as at June 2001

Department Education

YTD Variance (negative - overspend)	Projected Outturn Variance	Ledger Code	Reasons for Variance	Action Taken or to be Taken	Impact of Action	Monetary Effect on Next Years Budget
£	£					£
SERVICE STRATEGY AND REGULATION						
(69,469) Nil		200.0000.0000 Exp	Property insurance exceeds profiled budget to date. Appears full insurance cost paid in period to 30 June	Investigate insurance costs and reprofile budget by 31 August	None	Nil
(20,279) Nil		208.0000.0000 Exp	Part of budget for unfunded superannuation payments has been set in Service 213	Budget to be moved by 31 August	None	Nil
(26,252) Nil			All Other SSR Variances	None	None	Nil
(116,000) Nil		SSR TOTAL				
PRE PRIMARY EDUCATION						
149,157 Nil		211.0000.2022 Inc	Pre School Development Fund grant and Pre School S23 & S25 grants. Grants now being received relate to updated pre school numbers. Timing of actual receipts ahead of budget profile. Revised budget profile done	Amended budget profile to be actioned by 31 August	None	Nil
40,000 Nil		211.0000.2014 Inc	Pre School Gaelic Grant. Receipt of grants invoices accrued at year end. Accrual is in 211.0000.0000. A journal has already been processed in August. To correct this.	None	None	Nil
(55,300) Nil		211.0000.2016 Inc	Pre School S23 Grant. See above variance in grant income. Overall net adverse variance to date £19,004.	Review budget profile for July monitoring.	None	Nil
(42,390) Nil		211.0000.2015 Exp	Pre School S25 Grant. See above variance in grant income. Overall net favourable variance to date £42,060.	Review budget profile for July monitoring.	None	Nil
26,955 Nil		211.0000.2019 Exp	Childcare Strategy. Decision making process in place. Awaiting applications from voluntary organisations for funding.	Budget to be reprofiled Sept/March by 31 August	None	Nil
32,065 Nil		211.0000.2021 Exp	Surestart. Decision making process in place. Awaiting applications from voluntary organisations for funding.	Budget to be reprofiled Sept/March by 31 August	None	Nil
160,174 Nil		211.0000.0000 Exp	Budget may need re analysed over individual units.	Review action as part of July budget monitoring	None	Nil
34,339 Nil			All Other Pre-Primary Education Variances	None	None	Nil
345,000 Nil		PRE PRIMARY TOTAL				
PRIMARY EDUCATION, SECONDARY EDUCATION AND SCHOOLS						
(87,537) Nil		212.0000.2182 Inc	Income from New Opportunities Fund accrued at 31 March 2001 which still to be received. Grants claim had not been submitted as at 30 June.	Grant claim to finalised and submitted to New Opportunities Fund by 31 August.	None	Nil
		213.0000.2182 Inc				

(77,317)	Nil	212.0000.2132 Exp	Costs for instructors in primary schools. Budgets are held by individual school but actual costs are accumulated centrally.	A process to match budget and actual costs needs to be developed.	None	Nil
34,537	Nil	212.0000.2181 Exp 213.0000.2181 Exp	New Community Schools. Budget phasing is wrong. Some staff costs being miscoded.	Reprofiling of budget, journals for payroll miscodings and correction of payroll to be complete by 31 August.	None	Nil
109,732	Nil	212.0000.2169 Exp 213.0000.2169 Exp	National Grid For Learning. Work now scheduled for later in financial year. Tenders due back November.	Budget to be reprofiled based on revised work programme by 31 August.	None	Nil
56,806	Nil	212.0000.2111 Exp	Gaelic. Budget held centrally with actual costs charged to individual schools.	Budget to be allocated to individual schools. Progress will be reviewed 31 August.	None	Nil
(37,674)	Nil	210.0000.2182 Exp	New Opportunities Fund. This will be offset by grant income. A budget has still to be set up for both anticipated income and expenditure	Budgets to be set up for anticipated income and expenditure. Progress will be reviewed at 31 August.	None	Nil
(493,591)	Nil	212.0000.0000 Exp 213.0000.0000 Exp 213.3210.0000 Exp 213.1131.0000 Exp	McCrone budget not allocated to schools as at 30 June	Budget for McCrone has now been allocated to individual schools	None	Nil
460,847	Nil	210.0000.2183 I&E	McCrone budget not allocated to schools as at 30 June	Budget for McCrone has now been allocated to individual schools	None	Nil
(59,310)	Nil	212.0000.0000.16210	Primary Schools Refuse Collection. All refuse collection costs have been charged in advance.	The phasing of this budget will be amended to reflect the revised payment arrangements.	None	Nil
(64,258)	Nil	212.0000.0000.20000	Primary Schools Supplies & Services. Actual spend to 30 June upto budget with no savings to offset unallocated savings.	Virements have been made in DMR to secure unallocated savings. A mechanism to transfer this virement from DMR to Oracle is required.	None	??????
(190,956)	Nil	213.0000.0000.00000	Secondary Schools Employee Costs. Budget for McCrone has still to be allocated to individual schools. Taking this variance with those above for McCrone the actual expenditure to end of June appears to exceed budget for employee costs. One budget for teacher training requires to be moved for third party payments to employee costs £300,000. Not all grant funded budgets have been fully allocated down to expenditure type. The are some miscodings.	Carry out necessary budget movements, journals to correct actuals and allocate grant funded budgets down to expenditure type. Review progress in September.	None	??????
151,317	Nil	213.0000.0000.42310	Secondary Schools Exam Fees. Budget profiled throughout year but no payments made as at 30 June.	Review budget profile. Check Progress 31 August.	None	Nil
(39,993)	Nil	213.0000 Ex Fund	Secondary Schools Excellence Fund. Costs to date are ahead of budget.	Review budget profile. Check Progress 31 August.	None	Nil
(603)	Nil		All Other Variances in Primary and Secondary		None	Nil

(238,000) Nil	PRIMARY, SECONDARY & SCHOOLS GEN TOTAL	Primary (£441,000), Secondary (£193,000) and Schools General £396,000. Total (£238,000)				
(14,000) Nil	SPECIAL EDUCATION	Income of £14,000 accrued in error re specific grant funding which will now not be received.	Forecast adjustment of £14,000 loss of income to be processed by 31 August.	Overall impact of £14,000 loss of income will be considered as part of overall review of this budget.	Nil	
(56,000) Nil		Income of £56,000 for recharges to other Councils budgeted for period to 30 June. All recharges to and from other Councils take place in March.	Budget to be reprofiled all to March. Reprofiting to be completed by 31 August.	None	Nil	
(211,812) Nil		Budgets for area network support teams have not been allocated down to individual units.	Budgets to be calculated for individual units as per DMR and loaded into Oracle by 31 August	None	Nil	
219,795 Nil		Budget held at high level. Actual costs being charged to individual units/teams.	Budgets to be calculated for individual units as per DMR and loaded into Oracle by 31 August	None	Nil	
30,466 Nil		Parklands Special School. Budget in Oracle exceeds budget per DMR. On basis of 30 June budget appears high.	Budget to be reviewed for this and other special schools and revised as required.	Awaiting outcome of overall review of special school budgets.	Nil	
35,479 Nil		Budget for Special Education Needs transport lodged in Special Education actual costs charged to School Transport.	Budget has now been transferred to Service 250 (School Transport)	None	Nil	
(45,928) Nil		All Other Special Education Variances	None	None	Nil	
(42,000) Nil	SPECIAL TOTAL					
32,000 Nil	EDUCATION OTHER THAN AT SCHOOL	Reversal of year end provision for non payment of o/s debt by Actual Reality.	Provision to be transferred to a control account	None	Nil	
12,000 Nil		All Other Education Other Than At School Variances	None	None	Nil	
44,000 Nil	EDUCATION OTHER THAN SCHOOL TOTL					
(40,664) Nil	COMMUNITY EDUCATION	Budget is phased equally throughout the financial year whilst courses and consequently income tend to run August to March	Budget has now been reprofiled	None	Nil	

130,600	Nil	241.0000.0000 Exp	Budget held at high level. Actual costs being charged to individual units/teams.	Budgets to be calculated for individual units for both DMR and Oracle and loaded into each system. Progress will be reviewed at 31 August.	None	Nil
(63,936)	Nil		All Other Community Education Variances Each Less Than Below £25,000	Budgets to be calculated for individual units for both DMR and Oracle and loaded into each system. Progress will be reviewed at 31 August.	None	Nil
26,000	Nil	COMMUNITY EDUCATION TOTAL				
		SUPPORT SERVICES				
(56,808)	Nil	220.0000.2202 Exp	Development Services: Employee costs miscoded.	Journal to be prepared and payroll coding amended by 31 August	None	Nil
(34,050)	Nil	220.0000.2203 Exp	ECSU/DMR Unit. Recharge of computer leasing costs to schools outstanding. Error in profile of recharge of some employee costs. Miscoding of employee costs.	Recharge of computer leasing costs to be processed by 31 August. Budget profile to be adjusted by 31 August. Actual costs to be journalled and payroll amended by 31 August.	None	Nil
2,858	Nil		All Other Education Support Services Variances		None	Nil
(88,000)	Nil	SUPPORT SERV TOTAL				
		SCHOOL TRANSPORT				
(34,786)	Nil	220.0000.2500 Exp	Includes actual costs for Special Education Needs transport. Budget is included in Special Schools. See above	Budget has now been transferred to Service 250 School Transport	None	Nil
(50,214)	Nil		All Other School Transport Variances	None	None	Nil
(85,000)	Nil	TRANSPORT TOTAL				
(8,000)	Nil		Total For All Other Education Services			
N/A	(10,000)	GENERAL	Unspent portion of SINA monies carried forward as a commitment to 2001/2002	None	None	Nil
(162,000)	(10,000)	EDUCATION TOTAL				

Objective Summary - Housing and Social Work

Period: June_01-02

	YEAR TO DATE POSITION			PROJECTED FINAL OUTTURN				Variance From £000s
	Year-to-Date £000s	Year-to-Date £000s	Y-T-D Variance %	Projected Outturn £000s	Approved Annual £000s	Projected Variance £000s	Projected Variance %	
Service Strategy & Regulation - Housing	126,427	127,228	600 1%	0	0	0	0%	0
Statutory Housing Revenue	(3,160,856)	(3,079,372)	81,484 -3%	0	0	0	385%	0
Housing Benefits	(86,200)	(7,695)	78,505 -1020%	1,183,057	1,183,057	0	0%	1,183,057
Travelling Persons Sites	4,498	11,488	7,000 61%	41,313	41,313	0	0%	41,313
Homeless Persons	8,955	(10,761)	(17,736) 165%	69,510	69,510	0	0%	69,510
Other Housing	38,017	38,819	802 2%	(173,243)	(173,243)	0	0%	(173,243)
Service Strategy & Regulation - Social Work	954,994	991,342	36,348 4%	304,730	304,730	0	0%	304,730
Children & Families	607,546	721,593	114,047 16%	4,501,405	4,501,405	0	0%	4,501,405
Elderly People	1,453,007	1,297,913	(155,094) -12%	11,848,461	11,848,461	0	0%	11,878,461 (30,000)
People With a Physical or Sensory Disability	81,685	86,184	24,499 28%	645,005	645,005	0	0%	615,005 30,000
People with Learning Disabilities	605,874	682,101	86,226 13%	5,409,108	5,409,108	0	0%	5,375,106 34,000
People with Mental Health Needs	82,341	132,282	49,941 38%	869,420	869,420	0	0%	869,420 0
Offender's Services	(25,410)	(26,550)	(1,140) 4%	24,340	24,340	0	0%	24,340 0
Other Specific Social Work Services	65,255	75,212	9,957 13%	327,466	327,466	0	0%	327,466 0
Unspent SINA Monies	0	0	0 0%	2	0	(2)	0%	0 0
Additional Savings	0	0	0 0%	(44)	(102)	(58)	57%	0 0
Total Housing & Social Work Services	734,133	1,049,774	315,641 30%	25,050,528	25,050,468	(60)	0%	25,016,570 34,000
Statutory Housing Revenue	(3,160,856)	(3,079,372)	81,484 -3%	0	0	0	0%	0 0
Total Expenditure less Stat Housing Revenue	3,894,989	4,129,148	234,157 6%	25,050,528	25,050,468	(60)	0%	25,016,570 34,000

Projected Variance = Approved Budget - Projected Outturn

YTD Variance = Budget - Actual

**Revenue Budget Monitoring
Variance Explanations
For the Year To Date As At June 2001**



Housing and Social Work Service

YTD Variance £ (negative = overspend)	Projected Outturn Variance £	Ledger Code	Reasons For Variance	Action Taken or To Be Taken	Impact of Action	Monetary Effect on Next Years Budget £
HRA £109,674	Nil	335.***.3353 HRA- Maintenance & Repairs -all Locations	Electricity accrued but not billed to date.	None.	None.	Nil
-£60,259	Nil	335.3551.1136 HRA- Headquarters	Voids have increased above the budgeted figure. Problem areas are Campbelltown and Dunoon, the waiting list is being reviewed with the aim of reducing void properties. Ballochgoy is also an ongoing area of high voids.	Consideration is being given to the full year effect of this variance and also the measures that could be taken to contain costs. This will be considered as part of the July budget monitoring exercise with forecast adjustments and reporting to the SPC as necessary.	None.	Nil
£32,069	Nil		All Other HRA Variances	None.	None.	Nil
£81,484	Nil	HRA TOTAL				
HOUSING BENEFITS						
£10,440	Nil	310.0000.3101 Hsg Ben Council	Recovery of overpaid benefit currently running ahead of budget.	None.	None.	Nil
£19,424	Nil.	310.0000.3102	Underspend against benefit	None.	None.	Nil

Revenue Budget Monitoring
Variance Explanations
For the Year To Date As At June 2001



Housing and Social Work Service

YTD Variance £ (negative = overspend)	Projected Outturn Variance £	Ledger Code	Reasons For Variance	Action Taken or To Be Taken	Impact of Action	Monetary Effect on Next Years Budget £
CHILDREN & FAMILIES						
£80,054	Nil	350.0000.3550 Specialist Childcare Placements	The pattern of placements has differed to the original profile. At present there are currently fewer children in placement than anticipated when the budget was set. However, additional placements are in the process of being made.	None.	None.	Nil
£33,993	Nil		All Other Children and Families Variances	None.	None.	Nil
£114,047	Nil	CHILDREN & FAMILIES TOTAL				
ELDERLY						
-£26,416	Nil	355.2384.3020 Elderly Residential Home - Tigh A Rudha	Invoice to Health Board cancelled pending further negotiations on cost sharing agreement. Negotiations are ongoing but no reduction in budgeted income is currently anticipated.	None.	None.	Nil

Revenue Budget Monitoring
 Variance Explanations
 For the Year To Date As At June 2001



Housing and Social Work Service

YTD Variance £ (negative = overspend)	Projected Outturn Variance £	Ledger Code	Reasons For Variance	Action Taken or To Be Taken	Impact of Action	Monetary Effect on Next Years Budget £
-£8,065	Nil		<u>All Other Physical Disability Variances</u>	None	None	Nil
£24,499	Nil	PHYSICAL DISABILITY TOTAL				
LEARNING DISABLED						
£32,470	Nil	360.****.3620 Resource Centres	This service has benefited from a year to date saving on employee costs. A review is underway to establish the net full year effect.	None	None	Nil
£25,549	Nil	360.****.3621 Day Care	Some payments to third parties were delayed into July and this has distorted the actual to budget comparison for the year to date.	None	None	Nil
£24,207			<u>All Other Learning Disabled Variances</u>	None	None	Nil
£82,226	Nil	LEARNING DISABLED TOTAL				
MENTAL HEALTH						
£32,814	Nil	370.0000.3715 Dementia Pilot Project	Payments made by the Health Board in advance of expenditure incurred.	None	None	Nil

Objective Summary - Transportation and Property Services

Period: June 01-02

	YEAR TO DATE POSITION				PROJECTED FINAL OUTTURN				Previous Outturn £000s	Variance From Prev £000s
	YTD Actual £000s	YTD Budget £000s	YTD Variance £000s	YTD Var %	Projected Outturn £000s	App Annual Budget £000s	Projected Variance £000s	Proj Var %		
Service Strategy & Regulation	221	235	14	6%	257	257	0	0%	257	0
Roads	2,581	2,741	160	6%	14,310	14,310	0	0%	14,310	0
Design Services	119	63	(56)	-90%	229	229	0	0%	229	0
Lighting	76	140	64	45%	951	951	0	0%	951	0
Traffic management & Road Safety	98	113	14	12%	745	745	0	0%	745	0
Parking	(82)	(55)	27	-49%	(88)	(88)	0	0%	(88)	0
Piers, harbours & Airfields	(2)	(24)	(21)	90%	275	275	0	0%	275	0
Ferries	134	96	(39)	-41%	624	624	0	0%	624	0
Concessionary Fares	182	187	5	3%	883	883	0	0%	883	0
Public Transport	754	739	(16)	-2%	1,798	1,798	0	0%	1,798	0
Coastal Protection	22	49	26	54%	258	258	0	0%	258	0
Internal Transport Services	(19)	60	80	192%	0	0	0	0%	0	0
Property & Related Services	487	254	(244)	-96%	0	0	0	0%	0	0
Contract Services	72	161	89	55%	0	0	0	0%	0	0
Trunk Road Services	(24)	0	24	0%	0	0	0	0%	0	0
Unspent SINA Monies	0	0	0	0%	103	0	0	0%	0	0
Additional Savings	0	0	0	0%	(27)	(58)	(31)	53%	0	0
Repayment Proposal Strategic Policy Committee 16 August 2001	0	0	0	0%	(544)	(544)	0	0%	0	0
Total Property & Transportation Services	4,830	4,759	129	3%	18,775	19,841	(1,066)	-1%	20,243	0

YTD Variance = Budget - Actual

Projected Variance = Approved Budget - Projected Outturn

Revenue Budget Monitoring
Variance Explanations
For the Year to Date as at June 2001

Department Transportation & Property Services

YTD Variance (negative = overspend)	Projected Outturn Variance	Ledger Code	Reasons for Variance	Action Taken or to be Taken	Impact of Action	Monetary Effect on Next Years Budget
£	£					£
SERVICE STRATEGY & REGULATION						
41,412	Nil	500.0000.5519 Exp	Some actual costs have been charged against '5549' rather than '5519'	Miscodings to be identified and corrected.	None	Nil
(53,146)	Nil	500.0000.5549 Exp	Some actual costs have been charged against '5549' rather than '5519'	Miscodings to be identified and corrected.	None	Nil
25,734			All Other SSR Variances	None	None	Nil
14,000	Nil	SSR TOTAL				
ROADS						
(32,659)	Nil	510.0000.5501 Exp	Miscoding of some payroll costs which should be in Design service 570.	Journal to be prepared to move actual costs and payroll amended. Review progress 31 August	None	Nil
(27,670)	Nil	510.0000.5549 Exp	Indirect Costs. Transport costs currently ahead of budget phasing.	Position to be monitored and consideration give to corrective action /forecast amendment. Review as part of July budget monitoring.	None	Nil
277,303	Nil	510.0000.5551 Exp	Direct Costs. Mainly payments due to DLO of £200,000 not processed at 30 June. Also miscode £52,060 from costing system see below.	Review again as part of July budget monitoring. Miscoding now corrected.	None	Nil
(52,060)	Nil	510.0000.5551 Inc	Direct Costs. Charges from costing system miscoded to income in error. Should have been coded to 510.0000.5551 Exp above	Now corrected.	None	Nil
(4,914)	Nil		All Other Roads Variances	None	None	Nil
160,000	Nil	ROADS TOTAL				
DESIGN SERVICES						
32,247	Nil	570.0000.5501 Exp	Staff salaries to be reallocated from Roads Service 510.	Journal to be prepared to move actual costs and payroll amended. Review progress 31 August	None	Nil

(50,823) Nil	570,000.5581 Inc	Recharge of costs less than budget to date. Partial recovery in July.	Position to be monitored and consideration give to corrective action /forecast amendment. Review as part of July budget monitoring.	None	Nil
(37,424) Nil		All Other Design Variances	None	None	Nil
(56,000) Nil	DESIGN TOTAL				
LIGHTING					
65,369 Nil	511,000.5551 Exp	Direct Costs. Payments to D.L.O outstanding at end June of £50,000	None	None	Nil
(1,369)		All Other Lighting Variances	None	None	Nil
64,000 Nil	LIGHTING TOTAL				
PARKING					
41,412 Nil	530,4125.5488 Exp	Helensburgh Pier. White lining of car park charged to individual car parks but budget held centrally.	Look at allocating budget to individual car parks. Review position in September.	None	Nil
26,339 Nil	530,000.5482 Inc	On Street Parking. Income ahead of budget to date.	Position to be monitored and consideration give to corrective action /forecast amendment. Review as part of July budget monitoring.	None	Nil
(61,811) Nil	530,000.5488 Inc	Off Street Parking. Budget held centrally but income coded to individual car parks.	Budget now allocated to each car park.	None	Nil
21,060 Nil		All Other Parking Variances	None	None	Nil
27,000 Nil	PARKING TOTAL				
PIERS, HARBOURS AND AIRFIELDS					
57,612 Nil	540,000.5401 Exp	Budget held centrally but costs allocated to individual harbours etc.	None	None	Nil
(25,724) Nil	540,3110.5401 Exp	Budget held centrally but costs allocated to individual harbours etc.	None	None	Nil
(55,842) Nil	540,2364.5401 Inc	Income below budget for Craignure, Dunoon and Rothesay.	Monitor position during July budget monitoring	None	Nil
	540,3110.5401 Inc	Payments outstanding from Calmac.			
	540,3210.5401 Inc				
2,954 Nil		All Other Pier, Harbour & Airfield Variances	None	None	Nil
(21,000) Nil	PIERS, HARBOURS & AIRFIELDS TOTAL				
FERRIES					

(52,114) Nil	551.0000.5475 Exp	Islay/Jura Ferry. Budget held centrally but expenditure charged to individual ferries. Costs associated with Islay/Jura Ferry higher than anticipated at present and will require careful monitoring for remainder of year.	Look at allocation of budget to individual ferries during September. Ongoing monitoring of Islay/Jura Ferry costs.	None	Nil
13,114 Nil		All Other Ferry Variances	None	None	Nil
(39,000) Nil	FERRIES TOTAL				
PUBLIC TRANSPORT					
(74,258) Nil	550.0000.5505 Inc	Public Transport Direct. Misallocation of costs with '5506'	Process journal to correct	None	Nil
92,768 Nil	550.0000.5506 Inc	Public Transport Rechargeable. Misallocation of costs with '5505'	Process journal to correct	None	Nil
(34,510) Nil		All Other Public Transport Variances	None	None	Nil
(16,000) Nil	PUBLIC TRANSPORT TOTAL				
COASTAL PROTECTION					
26,295 Nil	560.0000.5551 Exp	Direct Costs. Programme of works in progress awaiting invoices.	None	None	Nil
(295) Nil		All Other Coastal Protection Variances	None	None	Nil
26,000 Nil	COASTAL PROTECTION TOTAL				
INTERNAL TRANSPORT					
(30,339) Nil	575.0000.5549 Exp	Indirect Costs. Insurance costs exceed budget.	Consider overall effect on internal transport and do forecast adjustment. Review progress 31 August.	None	Nil
65,046 Nil	575.0000.5591 Exp	Dunoon Garage Direct. Payments to DLO currently below budget £49,885. Due to less work as fleet has been reduced.	DLO budget requires to be reviewed.	None	Nil
47,000 Nil	575.0000.5601 Exp	Lochgilphead Garage Direct? Payments to DLO currently below budget £38,837. Due to less work as fleet has been reduced.	DLO budget requires to be reviewed.	None	Nil
40,209 Nil	575.0000.5611 Exp	Oban Garage Direct Payments to DLO currently below budget £32,605. Due to less work as fleet has been reduced.	DLO budget requires to be reviewed.	None	Nil
33,798 Nil	575.0000.5681 Exp	Stock Fuel Purchases/Issues. Net off against Income to get adverse variance £20,795.	Position to be monitored and consideration give to corrective action /forecast amendment. Review as part of July budget monitoring.	None	Nil

(54,593) Nil	575.0000.5681 Inc	Stock Fuel Purchases/Issues. Net off against Expenditure to get adverse variance £20,795.	Position to be monitored and consideration give to corrective action /forecast amendment. Review as part of July budget monitoring	None	Nil
(2,121) Nil		All Other Internal Transport Variances	None	None	Nil
80,000 Nil	INTERNAL TRANSPORT TOTAL				
PROPERTY SERVICES					
(83,704) Nil	580.1136.5802 Inc	Property Design Lochgilphead. Delay in recharge of design fees pending agreement of new procedure.	Recharge of fees now upto date	None	Nil
(98,836) Nil	580.3213.5802 Inc	Property Design Duroon. Delay in recharge of design fees pending agreement of new procedure.	Recharge of fees now upto date	None	Nil
(27,397) Nil	580.****.5802.451110	Property Design Consultants Fees. Costs to date exceed budget. This may be a possible overspend but additional costs should offset by additional income	Ongoing costs and income will be monitored and full year effect assessed in future budget monitoring exercises.	None	Nil
(20,897) Nil	580.0000.5804 Inc	Estates Income. Under recovery of budgeted income at end June £20,897.	Quantification of full year impact and options to recover shortfall in progress. Review early September.	None	Nil
(13,166) Nil		All Other Property Variances	None	None	Nil
(244,000) Nil	PROPERTY TOTAL				
CONTRACT SERVICES					
30,648 Nil	581.0000.0000 Exp	Similar expenditure coded to this cost centre and 58600.	Move budgets/actuals to one cost centre. Review progress September	None	Nil
(30,586) Nil	581.0000.5800 Exp	Similar expenditure coded to this cost centre and 00000.	Move budgets/actuals to one cost centre. Review progress September	None	Nil
106,745 Nil	581.****.**** Inc	General increase in income for all cost centres with some reductions.	Will be reviewed as part of July monitoring		
(17,807) Nil		All Other Contract Services Variances	None	None	Nil
89,000 Nil	CONTRACT TOTAL				
TRUNK ROAD SERVICES					
145,087 Nil	573.0000.5025 Exp	A83 Artilligan. Offset by income below	Reprofile budget to reflect expected expenditure	None	Nil
(173,741) Nil	573.0000.5025 Inc	A83 Artilligan. Offset by expenditure above	Reprofile budget to reflect expected income	None	Nil
264,265 Nil	573.0000.5024 Exp	A83 Inverneill Bridge. Payments received in advance of works.		None	Nil
(243,494) Nil	574.0000.5013 Inc	A83 Tarbert-Kemnacraig. Income accrued at year end not yet received.	An invoice was issued to Scottish Executive in July	None	Nil

39,833	Nil	574,000.5019 Inc	A82 Tyndrum-Highland. Relates to payments received in advance of works.		None	Nil
(7,950)	Nil		All Other Trunk Roads Variances	None	None	Nil
24,000	Nil	TRUNK ROADS TOTAL				
19,060	Nil		Total For All Other Transportation & Property Services			
N/A	(103,000)	GENERAL	Unspent portion of SINA monies carried forward as a commitment to 2001/2002	None	None	Nil
N/A	(31,000)	GENERAL	Balance of unallocated additional savings to meet SINA commitments	None	None	Nil
127,000	(134,000)	TRANSPORT & PROPERTY SERVICES				

Period: June_01-02

	YEAR TO DATE POSITION				PROJECTED FINAL OUTTURN				Previous Outturn £000s	Variance From Prev £000s
	YTD Actual £000s	YTD Budget £000s	YTD Variance £000s	YTD Var %	Projected Outturn £000s	App Annual Budget £000s	Projected Variance £000s	Proj Var %		
Service Strategy, Regulation & Admin	156	132	(24)	-18%	92	92	0	0%	92	0
Amenity Services	1,095	1,813	719	40%	10,942	10,942	0	0%	10,942	0
Public Protection	320	315	(5)	-2%	1,768	1,844	(124)	-8%	1,644	(124)
Leisure Development	783	836	54	6%	4,385	4,385	0	0%	4,385	0
Statutory Plans	75	91	16	18%	656	656	0	0%	656	0
Development Control & Building Control	77	101	23	23%	842	842	0	0%	842	0
Economic Development & Tourism	301	343	42	12%	1,223	1,223	0	0%	1,223	0
New Deal	11	0	(11)	0%	0	0	0	0%	0	0
Unspent SINA monies	0	0	0	0%	111	0	(111)	0%	0	0
Total Development & Environment Services	2,818	3,631	813	22%	20,019	19,784	(235)	-1%	19,784	(124)

YTD Variance = Budget - Actual

Projected Variance = Approved Budget - Projected Outturn

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Revenue Budget Monitoring
Variance Explanations

For the Year to Date as at June 2001

Department Development and Environment Services

YTD Variance (negative = overspend)	Projected Outturn Variance	Ledger Code	Reasons for Variance	Action Taken or to be Taken	Impact of Action	Monetary Effect on Next Years Budget
£	£					£
AMENITY SERVICES						
112,101	Nil	450.0000.4500 PFI	Accrual of PFI consultancy costs as at 31 March 2001 which have still to be paid.	None	None	Nil
64,532	Nil	451.****.0000 Waste Collection	This apparent overspend is offset by apparent underspends elsewhere in Amenity Services Transport. The allocation and profile of transport costs needs to be reviewed across Amenity Services. Additional income to date of £12,000.	None	None	Nil
50,519	Nil	452.****.0000 Front End Loaders	Income accruing to Council arising from delayed start to PFI contract from April to August.	None	None	Nil
467,099	Nil	453.****.0000 Waste Disposal	Budget assumed PFI contract to commence April. Contract start now scheduled for August.	None	None	Nil
24,386			All Other Amenity Services Variances	None	None	Nil
718,637	Nil	AMENITY SERVICES				
PUBLIC PROTECTION						
N/A	(124,000)	PUBLIC PROTECTION				Nil
LEISURE DEVELOPMENT						
32,310	Nil	470.****.0000 Leisure General	Leisure development grants accrued at year end and not yet fully paid out.	None	None	Nil
14,045	Nil	470.3000.4700 Arts - Dumboon	Leisure development grants accrued at year end and not yet fully paid out.	None	None	Nil
7,523	Nil		All Other Leisure Development Variances	None	None	Nil
53,878	Nil	LEISURE DEVELOPME N TOTAL				
ECONOMIC DEVELOPMENT & TOURISM						
(23,964)	Nil	440.0000.0000 EDT General	Payment in advance of budget assumptions to Loch Lomond & Trossach Interim Committee. Profilled to be adjusted.	None	None	Nil

Objective summary - Central Support Services

Period: June_01-02

	YEAR TO DATE POSITION				PROJECTED FINAL OUTTURN				Previous Outturn £000s	Variance From Prev £000s
	YTD Actual £000s	YTD Budget £000s	YTD Variance £000s	YTD Var %	Projected Outturn £000s	App Annual Budget £000s	Projected Variance £000s	Proj Var %		
Chief Executive - Personnel	186	187	1	0%	(4)	(4)	0	0%	(4)	0
Corporate & Legal Services	375	350	(25)	-7%	236	236	0	0%	(8)	0
Financial Services	459	466	7	2%	73	(7)	(80)	0%	(8)	0
Information Technology	710	747	38	5%	(7)	(7)	0	0%	(7)	0
Support Activities	221	240	19	8%	0	0	0	0%	0	0
Total Support Services	1,951	1,990	39	2%	298	218	(80)	0%	(27)	0

Projected Variance = Approved Budget - Projected Outturn

YTD Variance = Budget - Actual

**Revenue Budget Monitoring
Variance Explanations
For the Year to Date as at June 2001**

Department: Central Support Services

YTD Variance £	Projected Outturn Variance £	Reasons for Variance	Action Taken or to be Taken	Impact of Action	Monetary Effect on Next Years Budget £
(24,979)		SS - Corporate & Legal Services. Adverse variance as Internal Recharges for Printing and Postages have not been made by Corporate Services.	Corporate Services to process Invoices on regular basis.	Nil	Nil
37,539		SS - Information Technology. Mainly due to savings arising from vacant posts.	Nil	Nil	Nil
27,000		Other Central Support Service variances.	Nil	Nil	Nil
39,560	0				0

Objective Summary - Central Services to the Public

Period: June 01-02

	YEAR TO DATE POSITION				PROJECTED FINAL OUTTURN				Previous Outturn £000s	Variance From Prev £000s
	YTD Actual £000s	YTD Budget £000s	YTD Variance £000s	YTD Var %	Projected Outturn £000s	App Annual Budget £000s	Projected Variance £000s	Proj Var %		
Local Tax Collection	(691)	(904)	(13)	1%	1,501	1,501	0	0%	1,501	0
Registration of Births, Marriages & Deaths	70	80	10	12%	362	362	0	0%	362	0
Legal Services - Public	(8)	14	22	157%	216	216	0	0%	216	0
Emergency Planning	18	12	(6)	-48%	66	66	0	0%	66	0
Childrens Panel Expenses	9	7	(3)	-39%	39	39	0	0%	39	0
Corporate Strategy Initiatives	(51)	3	53	1998%	174	174	0	0%	174	0
Grants to Voluntary Bodies	2	6	4	74%	40	40	0	0%	40	0
Elections	2	3	0	6%	15	15	0	0%	15	0
Miscellaneous	42	135	92	69%	106	106	0	0%	(310)	(416)
Unspent SINA monies	0	0	0	0%	242	0	(242)	0%	0	0
Total CSTP	(807)	(644)	163	-25%	2,761	2,519	(242)	-10%	2,104	(416)

Projected Variance = Budget - Actual

Projected Variance = Approved Budget - Projected Outturn

**Revenue Budget Monitoring
Variance Explanations
For the Year to Date as at June 2001**

Department: Central Services to the Public

YTD Variance £	Projected Outturn Variance £	Reasons for Variance	Action Taken or to be Taken	Impact of Action	Monetary Effect on Next Years Budget £
53,355		CSTP - Corporate Initiatives. Favourable variance as year to date actuals showing credit balances being committed sums brought forward from previous year.	Nil	Nil	Nil
92,302		CSTP - Miscellaneous. The favourable variance is due to the Budget phasings in Activity 0500 Modernising Local Government 81,749 and Activity 0840 IT Topslice 33,333 with little actual spend as yet. Actual expenditure will appear later in year as projects are approved.	Amend Phasings	Will match actuals with budget	Nil
14,000		Other CSTP variances.	Nil	Nil	Nil
159,657	0				0

REVENUE BUDGET MONITORING – 30 JUNE 2001

1 SUMMARY

- 1.1 This report gives details of the first budget monitoring exercise for 2001/2002. A small surplus of less than 0.5% of projected expenditure is forecast. This provides a cushion against any future expenditure pressures.

2 RECOMMENDATIONS

- 2.1 Strategic Policy Committee note the budget monitoring report.
- 2.2 Strategic Policy Committee instruct directors to ensure expenditure is contained within budget.

3 DETAIL

- 3.1 The first budget monitoring exercise for 2001/2002 has been finalised. This exercise was completed as at 30 June 2001. The attached table summarises the overall financial position.
- 3.2 The undernoted adjustments have been made to the budget as per the budget book. These represent allocation of ring fenced funding approved as supplementary estimates, revised presentation of budget figures for McCrone and additional savings to fund residual Special Islands Needs Allowance commitments. The table reflects the decisions taken at the Strategic Policy Committee of 16 August with regard to savings by Education and Transportation and Property Services.

	£
Ring Fenced Funding -	
Modernising Gov Fund	416,000
Supporting People	34,000
Young Scot	244,000
	<hr/>
	694,000
Revised presentation of McCrone – move income to Aggregate External Finance	2,857,000
Additional savings re Special Islands Needs Allowance commitments	(500,000)
Repayment proposals agreed for Education and Transportation and Property Services	(737,000)
	<hr/>
	2,314,000
Budget book net expenditure –cash requirements	144,345,000
Budget monitoring report – net expenditure	<hr/> 146,659,000

3.3 All of the above have also been reflected in projected outturn except the unidentified portion of additional savings for Housing and Social Work and Transportation and Property Services. The projected outturn also reflects the commitment for Special Islands Needs Allowance of £468,000. Finally virement of savings in loan charges to central support services of £80,000 to finance development of internal audit has also been included. This was approved at Council on 9th August 2001.

3.4 The departments where projected expenditure exceeds annual budget other than the residential commitments for special islands needs allowance of £468,000 are:

Development and Environment Services £124,000 – Foot and Mouth expenditure not budgeted.

Housing and Social Work £58,000 – Unidentified portion of additional savings

Transportation and Property Services - £31,000 – Unidentified portion of additional savings.

3.5 The net position per the budget monitoring report is a projected surplus for the year of £559,000. Further adjustments for the unidentified portion of additional savings for Housing and Social Work and Transportation and Property Services of £58,000 and £31,000 would increase the surplus to £648,000. This can be reconciled to budget as follows:

	£
Surplus per budget	2,000
Repayments by Education and Transportation and Property Services	737,000
Additional savings	500,000
Special Islands Needs Allowance commitments	(468,000)
Foot and Mouth expenditure	<u>(124,000)</u>
	647,000

3.6 The net position is a small surplus of £559,000. This represents less than 0.5% of the projected outturn expenditure of £147,339,000. It provides a small cushion against future expenditure pressures which may arise during the year. It should also be borne in mind that this surplus is dependent upon achievement of Education and Transport and Property repayment proposals and other departments additional savings. Although these have been accepted and projected these are not guaranteed.

3.7 Progress is being made with improvements to budget monitoring. The current position in respect of Housing and Social Work, Development and Environment Services, Central Support Services and Central Services to the public is that a reasonable level of confidence can be expressed in the information in the budget monitoring report.

- 3.8 The project team have started work within Education. At present it is too early to comment on the quality of the budget monitoring position. A start has also been made in respect of Transportation and Property Services. This has however been hindered by the resignation of the Project Manager and difficulties in sourcing a replacement on an interim basis. Again it is too early to comment on the quality of the budget monitoring position. In the case of both departments additional variances have been highlighted to the departments for explanation. Acceptable explanations have been received to these further queries. Arising from this the departments are arranging to reallocate some budgets, reprofile some budgets and recode actual expenditure. Until these adjustments are made and the resulting improvements in cost centre budget monitoring materialise a statement on the quality of budget monitoring for these departments cannot be given.

Bruce West
Head of Accounting
29 August 2001
report/17augbwrevbudmonSPC

Argyll Bute Council - Objective Summary

Period: June_01-02

	YEAR TO DATE POSITION			YTD Var %	Projected App Annual Budget £000s	Projected Outturn £000s	Projected Variance £000s	Proj Var %
	YTD Actual £000s	YTD Budget £000s	YTD Variance £000s					
Education	14,245	14,085	(160)	-1%	62,047	(10)	(10)	0%
Housing & Social Work	3,885	4,129	234	6%	24,947	(60)	(60)	0%
Transport & Property Services	4,650	4,758	128	3%	19,641	(134)	(134)	-1%
Development & Environmental Services	2,818	3,632	814	22%	19,704	(235)	(235)	-1%
Central Support Services	1,951	1,950	36	2%	218	(60)	(60)	0%
Central Services To the Public	(907)	(648)	161	-25%	2,761	(232)	(232)	-10%
Corporate & Democratic Core	336	299	(37)	-13%	2,582	0	0	0%
Joint Boards	2,938	2,943	5	0%	11,755	0	0	0%
Statutory Housing Revenue Account	(3,161)	(3,078)	81	-3%	0	0	0	402%
Capital Financing Adjustment	(6,150)	(5,150)	0	0%	2,856	2,736	80	0%
Surplus Properties	46	88	40	47%	429	429	0	0%
Total Net Expenditure	21,741	23,047	1,305	6%	147,339	(661)	(661)	(0)
Aggregate External Finance	(26,623)	(26,623)	0	0%	(113,244)	0	0	0%
Contribution from BUDISQ	0	0	0	0%	(34,396)	0	0	0%
Local Tax Requirement	0	0	0	0%	(255)	(255)	0	0%
Additional Local Tax Income	0	0	0	0%				
Transfer from HRA Reserve	(29,025)	(29,823)	0	0%	(147,898)	0	0	0
TOTAL FUNDING	-4,682	-3,576	1,105	-30%	-536	(147,898)	0	0
DEFICIT(SURPLUS) FOR PERIOD					-1,220	-581		
					Projected Variance = Approved Budget - Projected Outturn			

ARGYLL AND BUTE COUNCIL
FINANCE

AUDIT COMMITTEE
8 NOVEMBER 2001

CODE OF AUDIT PRACTICE

1 SUMMARY

A revised Code has been issued by Audit Scotland. It sets out the way in which an auditor appointed by the Auditor General or the Accounts Commission should carry out functions under the Public Finance and Accountability (Scotland) Act 2000 or the Local Government (Scotland) Act 1973. It therefore covers the audit to be carried out by our new external auditors Audit Scotland.

In conjunction with the Code, Audit Scotland have also published a statement of responsibilities of auditors and of audited bodies. A copy of the statement is attached. The statement makes reference to the audited body having a responsibility to establish proper corporate governance arrangements, manage its affairs to secure economic, efficient and effective use of resources, maintain accounting records, prepare financial statements, safeguard assets, and take reasonable steps for the prevention and detection of fraud and other irregularities. In the Code, the section on Corporate Governance arrangements, refers to audited bodies usually involving their Audit Committee in monitoring the arrangements.

2. RECOMMENDATIONS

A report by Internal Audit be submitted to the Audit Committee on an annual basis, reporting on the Council's compliance with the responsibilities of the Council detailed in the Statement of Responsibilities of auditors and of audited bodies.

Stewart McGregor
Director of Finance
8 October 2001
reports/8novauditcommcodeofauditpractice

Statement of responsibilities of auditors and of audited bodies

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Audit Scotland

Audit Scotland is a statutory body set up in April 2000, under the Public Finance and Accountability (Scotland) Act 2000. It provides services to both the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Executive and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Auditor General for Scotland

The Auditor General for Scotland is the Parliament's watchdog for ensuring propriety and value for money in the spending of public funds.

He is responsible for investigating whether public spending bodies achieve the best possible value for money and adhere to the highest standards of financial management.

He is independent and not subject to the control of any member of the Scottish Executive or the Parliament.

The Auditor General is responsible for securing the audit of the Scottish Executive and most other public sector bodies except local authorities and fire and police boards.

The following bodies fall within the remit of the Auditor General:

- departments of the Scottish Executive eg the Department of Health
- executive agencies eg the Prison Service, Historic Scotland
- NHS boards and trusts
- further education colleges
- water authorities
- NDPBs and others eg Scottish Enterprise.

The Accounts Commission

The Accounts Commission is a statutory, independent body, which through the audit process, assists local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources.

The Commission has five main responsibilities:

- securing the external audit
- following up issues of concern identified through the audit, to ensure satisfactory resolutions
- reviewing the management arrangements which audited bodies have in place to achieve value for money
- carrying out national value for money studies to improve economy, efficiency and effectiveness in local government
- issuing an annual direction to local authorities which sets out the range of performance information which they are required to publish.

The Commission secures the audit of 32 councils and 34 joint boards (including police and fire services). Local authorities spend over £9 billion of public funds a year.

Statement of responsibilities of auditors and of audited bodies

Introduction

1. The Auditor General for Scotland ("Auditor General") and the Accounts Commission for Scotland ("the Accounts Commission") are responsible for appointing auditors and determining their terms of appointment, as well as for approving the Code of Audit Practice ("the Code") which sets out the framework within which auditors are to carry out their functions. Audit Scotland is a statutory body that provides services to the Auditor General and the Accounts Commission and provides guidance and support to auditors on technical matters and monitors their performance through a quality control process.
2. The purpose of this statement is to assist the auditor and audited bodies by summarising where – in the context of the usual conduct of the audit – the responsibilities of the auditor begin and end, and what is to be expected of the audited body in certain areas.
3. The responsibilities of the auditor are derived from statute (principally the Public Finance and Accountability (Scotland) Act 2000 and the Local Government (Scotland) Act 1973) as interpreted by the Code. Nothing in this statement is intended to limit or extend those responsibilities. In particular, audited bodies should note that, because the auditor's independence of the audited body must not be prejudiced, it is not the auditor's role to act as a financial or legal adviser or consultant to the audited body.
4. In addition to the framework for the audit and other work contained in the Code, Audit Scotland may issue guidance from time to time to assist the auditor in the application of the Code.
5. The auditor may wish to refer to this statement in audit plans, the annual audit report, management reports and other outputs.

Responsibilities

6. The audited body is responsible for the conduct of public business and the handling of public money and, as such, is fully accountable for the conduct of that business in accordance with the law and proper standards, ensuring that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Given this accountability to the public for the conduct of public business and stewardship of funds under its control, the audited body therefore has a responsibility to establish proper corporate governance arrangements, manage its affairs to secure economic, efficient and effective use of resources, maintain accounting records, prepare financial statements, safeguard assets, and take reasonable steps for the prevention and detection of fraud and other irregularities.
7. It is the auditor's responsibility to form an independent and objective view of the discharge by the audited body of its stewardship responsibilities. In so doing, the auditor may wish to obtain representations from management, both orally and in writing, on important matters.

8. The following paragraphs summarise the responsibilities of the audited body and auditor in relation to each of the principal functions of the auditor described in the Code.

Financial statements

9. It is the responsibility of the audited body and its management to:
 - act within the law and ensure the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority
 - maintain proper accounting records
 - prepare financial statements timeously which (depending on the financial reporting framework) give a true and fair view or present fairly the financial position of the body and its expenditure and income.
10. The auditor is required to audit the financial statements in accordance with Statements of Auditing Standards and to give an opinion:
 - whether, as appropriate, they give a true and fair view or present fairly the financial position of the audited body and its expenditure and income for the period in question
 - whether they have been prepared in accordance with relevant legislation and applicable accounting standards
 - except for local government bodies, on the regularity of the expenditure and receipts.
11. The financial statements should be prepared by the audited body in accordance with the timetable prescribed by statute or required by appropriate sponsoring departments or bodies, for example, the Scottish Executive Health Department in the case of NHS bodies. The financial statements submitted for audit by the audited body should be prepared in accordance with all appropriate regulatory requirements and be supported by appropriate accounting records and working papers prepared to an acceptable professional standard.
12. An auditor appointed by the Auditor General is responsible for ensuring that the audit is completed in a timely manner which enables the Auditor General and the Scottish Ministers to comply with their duties under Sections 22(4) and (5), Public Finance and Accountability (Scotland) Act 2000. An auditor appointed by the Accounts Commission should complete the audit by the date specified by the Commission.
13. The auditor takes reasonable steps to remain apprised of significant financial transactions or events that are unusual or of questionable regularity. The auditor has a responsibility to review and, where appropriate, report on the audited body's corporate governance arrangements as they relate to the regularity of transactions which might have material financial consequences. The auditor will obtain reasonable assurance that there is compliance with the statutory and other requirements applicable to the financial statements of the audited body, and that material requirements for accounting presentation and disclosure have been met. Where there are secondary financial statements, such as those for trust funds and the common good in

the case of local government bodies, the auditor assesses whether regulations or trust deed requirements have been complied with to the extent that non-compliance might cause a material misstatement in the financial statements of the audited body when viewed as a whole.

14. The auditor will examine selected transactions and balances on a test basis and assess the significant estimates and judgements made by the audited body and its management in preparing the financial statements.

Corporate governance arrangements

15. The audited body has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice.

Internal control

16. To ensure the proper conduct of its business, the audited body has a responsibility to develop and implement systems of internal control, including systems of financial, operational and compliance controls and risk management and, for most bodies, at least annually to conduct a review of the effectiveness of the body's systems of internal control and report publicly that it has done so.
17. The auditor has a responsibility to review and, where appropriate, report any findings on the audited body's review of its systems of internal control. It is the responsibility of the audited body to undertake a proper assessment of the risks facing the audited body and to implement systems and procedures to address those risks. The auditor is not responsible for reviewing the effectiveness of the audited body's procedures.
18. In relation to financial systems relevant to the financial statements the auditor will evaluate those systems and related controls. Other systems will be considered in accordance with the responsibilities set out in the Code. In practice the auditor will not examine every financial activity or accounting procedure. The auditor will rely on the results of the evaluation of the audited body's systems, supplemented, as necessary, by appropriate tests of control or detail. Whilst the auditor aims to identify any major weaknesses in a system under review, the auditor's work should not be relied upon to identify all weaknesses that may exist.
19. As part of the organisation's control framework, it is the responsibility of the audited body to secure effective internal audit arrangements and to ensure that, commensurate with the assessment of risks facing the body, internal audit work is properly planned, controlled, performed and reviewed. The working assumption used to estimate the indicative fee for the audit is that internal audit work is undertaken upon which the auditor can place reliance in accordance with Statement of Auditing Standards 500.

Prevention and detection of fraud and irregularities

20. It is the responsibility of the audited body to establish arrangements to prevent and detect fraud and irregularity. It therefore needs to put in place proper arrangements for:
 - developing, promoting and monitoring compliance with standing orders and financial instructions
 - developing and implementing strategies to prevent and detect fraud and irregularity; and

- receiving and investigating allegations of breaches of proper standards of financial conduct or fraud or irregularity.
21. The auditor plans his approach to this aspect of the Code in accordance with professional guidance. However, the auditor does not perform detailed tests of transactions to the extent that would be necessary to disclose all unlawful or irregular transactions or events that may have occurred, or might occur, and the audit process should not be relied upon to disclose such matters. The work of the auditor should not be taken as a substitute for the audited body obtaining appropriate legal advice.
22. The auditor has a responsibility to review and, where appropriate, report any findings on the audited body's arrangements in relation to the prevention and detection of fraud or error. The auditor's work does not remove the possibility that fraud or irregularities have occurred and remained undetected. It is not the auditor's function to prevent fraud or irregularity, although the auditor will be alert to the potential for such acts and will act with no undue delay if such instances come to light.

Standards of conduct, integrity and openness

23. It is the responsibility of the audited body to ensure that its affairs are managed in accordance with proper standards of conduct. It therefore needs to put in place proper arrangements for:
- implementing and monitoring compliance with appropriate guidance on standards of conduct
 - expressing and promoting appropriate values and standards across the body
 - developing, promoting and monitoring compliance with standing orders and financial instructions.
24. The auditor has a responsibility to review and, where appropriate, report on the audited body's corporate governance arrangements as they relate to standards of conduct and arrangements in relation to the prevention and detection of corruption.

Financial position

25. It is the responsibility of the audited body to conduct its affairs and to put in place proper arrangements to ensure that its financial position is soundly based having regard to:
- such financial monitoring and reporting arrangements as may be specified
 - compliance with statutory financial requirements and achievement of financial targets
 - levels of balances and reserves; and
 - the impact of planned future policies and known or foreseeable future developments on the body's financial position.
26. The auditor has a responsibility to review and, where appropriate, report any findings on the audited body's arrangements as they relate to the financial position of the audited body. While it is likely that the auditor will focus on

the arrangements made by the audited body in relation to, say, budgetary control and financial reporting, it is not the auditor's responsibility to consider in detail the audited body's corporate strategy, financial plans, projections or budgets. Accordingly, the auditor is unlikely to identify any deficiencies that these may contain.

Performance management

Arrangements for securing value for money

27. It is the responsibility of the audited body to ensure that suitable arrangements are in place to secure economy, efficiency and effectiveness in the use of its resources, and that they are working effectively. These will include procedures for planning, appraisal, authorisation and control, accountability and evaluation of the use of resources, and to ensure that performance targets and required outcomes are met and achieved.
28. The auditor discharges the responsibility to consider the audited body's arrangements for securing value for money by reviewing and, where appropriate, examining evidence that is relevant to aspects of those arrangements. *The auditor's planning process in relation to this will have regard to an assessment of audit risks and significance, evidence from other aspects of the audit or previous audit work, the work of other auditors where appropriate, and any guidance issued by Audit Scotland.*

Use of resources

29. Where appropriate in relation to participation in value for money studies regarding an aspect of the audited body's services or functions, the auditor undertakes the necessary fieldwork and reports in accordance with guidance from Audit Scotland.
30. The auditor's consideration of aspects of the audited body's performance management is not a consultancy or advisory exercise. It is carried out with a different resource input and relies on information from management.
31. While consideration of performance management provides an independent assessment of the audited body's arrangements for securing economy, efficiency and effectiveness in the use of resources, it cannot be relied on to have identified every weakness or every opportunity for improvement. Before deciding whether to place reliance on conclusions and recommendations from a performance audit, the audited body should consider them in the broader business, commercial, or other relevant context.

Best value performance management and planning

32. Guidance issued by the Scottish Ministers about Best Value requires local government bodies to develop a performance management and planning framework which establishes clear standards and targets for all of the body's activities, identifying where and how improvements can be made, and reporting on performance.
33. The auditor's responsibility within the overall framework of value for money work is to provide an independent, external report on the audited body's progress in implementing appropriate frameworks, identifying good practice for wider dissemination and areas of concern and ensuring that services are planning for improvement. The auditor discharges the responsibility in accordance with guidance from Audit Scotland.

Local authority performance indicators

34. The Local Government Act 1992 requires the Accounts Commission to specify information which local authorities must publish about their performance. The auditor's duty is to be satisfied that the audited body has made the necessary arrangements for collecting, recording and publishing performance information.
35. The auditor discharges this duty by appraising the audited body's arrangements, testing the completeness and appropriateness of the arrangements and considering whether statutory reporting requirements have been met.

Special powers and duties

36. Under Section 22(3), Public Finance and Accountability (Scotland) Act 2000, the auditor must send the financial statements and the auditor's report to the Auditor General, who may prepare a report. Whilst the decision to prepare a subsequent report and the content of that report are the responsibility of the Auditor General, the auditor must keep the provision in mind and should bring to the attention of Audit Scotland any matter which may give rise to such a report at the earliest opportunity.
37. The auditor of a local authority has a duty to report to the Controller of Audit on any matters in respect of which there may require to be an exercise of the Controller of Audit's statutory reporting powers under Section 102, Local Government (Scotland) Act 1973.

Grant claims

38. The responsibility for ensuring the preparation, accuracy, completeness and timely submission of any grant claims and returns lies with the audited body. The Scottish Ministers, sponsoring bodies or others may require independent examination as a condition of their acceptance of claims or returns and in advance of any reimbursement being made. Audit Scotland will advise the auditor of claims or returns which have been approved for examination by the auditor and no others should be accepted without the prior approval of Audit Scotland.
39. In conjunction with the audited body, the auditor is required to identify those "approved" claims likely to be prepared and submitted by the audited body and to assess, agree and incorporate the time required for such work in the audit plan. When required, such information should be made available to Audit Scotland.
40. The auditor should have regard to any grant notes and other guidance issued by Audit Scotland in relation to such claims and returns.

Reporting the audit

41. It is anticipated that the auditor will provide such opinions and reports as required by the letter of appointment and the Code.
42. When considering the action to be taken on outputs from the audit process, the audited body should bear in mind the nature and scope of the auditor's work and the responsibilities of the auditor as set out in the Code and explained in this statement. Matters raised in reports will be drawn from those that came to the auditor's attention during the audit. The audit cannot and should not be relied upon to detect all weakness, errors or opportunities

for improvement in the body's arrangements that might exist. The audited body should assess conclusions and recommendations in audit outputs for their wider implications before agreeing to the action plan to be included with the auditor's management or other report.

43. Although reports may be addressed to the members or managers of the audited body, they are prepared for the sole use of the audited body, the Auditor General, Controller of Audit, Accounts Commission or Audit Scotland. Auditors appointed by the Auditor General should also recognise that most accounts will be laid before the Scottish Parliament and accordingly the Parliament will also be an addressee of the audit opinion. Certificates and reports to grant paying agencies are prepared for the sole use of those agencies or for any agency having statutory rights of access to them. The auditor does not undertake responsibilities to members, directors or managers in their individual capacities or to third parties.

Ad hoc requests for the auditor's views

44. There may be occasions when the audited body will seek the views of the auditor on the regularity, accounting treatment or performance management implications of a transaction or proposed course of action before embarking upon it. In such cases the auditor will be as helpful as possible, but the auditor is precluded from giving a definitive view in any case because:

- the auditor's independence must not be prejudiced by being involved in the decision-making of the audited body
- the auditor is not a financial or legal adviser to the audited body; and
- the auditor may not act in any way that might fetter the ability to report on the matter, or to exercise the powers conferred by statute on the auditor, the Auditor General, Controller of Audit, the Accounts Commission or Audit Scotland.

45. In response to such requests, the auditor can only be expected to offer an indication as to whether anything in the information available to them at the time of forming a view is likely to cause the auditor to consider reporting on the matter. Any response from the auditor to such a request should not be taken by the audited body as suggesting that the proposed transaction or course of action will be exempt from challenge in future, whether by the auditor or others entitled to raise objection to it. It is the responsibility of the audited body and its management to decide whether to embark on any transaction or course of action.

Public private partnerships/private finance initiative

46. An audited body considering a project under a public private partnership or the PFI should appoint its own financial and legal advisers. It is for the audited body to take such advice as they consider appropriate before proceeding with any such project.
47. While any public private partnership or PFI development will require to be considered by the auditor as part of the responsibilities under the Code, indicative fees for the audit specified by Audit Scotland do not specifically provide for the auditor requiring to undertake audit work in relation to a public private partnership or PFI project. Where it is apparent that such audit work will require to be undertaken, Audit Scotland will consider a request from the auditor to enter discussions with the audited body over fees.

48. If the auditor were asked for views on a proposed course of action this would be regarded as an ad hoc request for the auditor's view within the context outlined in the paragraphs above.

ARGYLL AND BUTE COUNCIL
FINANCE

AUDIT COMMITTEE
8 NOVEMBER 2001

PROPRIETY AND AUDIT IN THE PUBLIC SECTOR

1 SUMMARY

A paper on Propriety and Audit in the Public Sector, has recently been issued by the Public Audit Forum, a body established in 1998 by the then four national audit agencies: The National Audit Office (NAO), the Northern Ireland Audit Office (NIAO), the Audit Commission for Local Authorities and the National Health Service in England and Wales, and the Accounts Commission for Scotland.

The purpose of this paper is to provide management and auditors with an understanding of *propriety* in the public sector and the implications for its audit. It covers the following issues:

- The concept of propriety, drawing on parliament's expectations;
- Failures of propriety;
- Safeguards against failures of propriety;
- Audit approach to propriety

The definition of propriety is given in the paper as follows --

- *Propriety is concerned with the way in which public business should be conducted. There are a number of different interpretations of this concept. Dictionary definitions refer variously to "appropriateness", "rightness", "correctness in behaviour or morals", "conformity with convention in conduct". In the context of public administration, the Nolan committee has defined propriety as encompassing:*

"not only financial rectitude, but a sense of the values and behaviour appropriate to the public sector"

Similarly, the Public Accounts Committee has used phrases such as "the standards of public conduct" and "care for the honest handling of public money" and "traditional public sector values". Public sector auditors are especially concerned with the financial aspects of propriety, i.e. the proper conduct of affairs that have financial implications. This is embodied in the definition of propriety set out in Government Accounting: "Propriety is the requirement that expenditure and receipts should be dealt with in accordance with Parliament's intentions and the principles of Parliamentary control, including the conventions agreed with Parliament."

Propriety is concerned with standards of conduct, behaviour and, in particular, fairness, integrity and the maintenance of a responsible attitude to public office. The concept of propriety is different, although not unrelated to other concepts of behaviour, both positive and negative. Other relevant concepts, are put forward in the paper, as being related to propriety, as follows:

- i) Accountability
- ii) Regularity, or legality
- iii) Property
- iv) Value for Money
- v) Fraud
- vi) Corruption
- vii) Governance
- viii) Internal Control

Internal Audit has its own part to play in the scrutiny function. Apart from its role as a component in the internal control environment, it can act as a body's own conscience on matters of propriety. The Auditing Practices Board internal audit guideline sets out the importance of internal audit's freedom of access and reporting to all senior management and the board. This provides a crucial mechanism for challenging the actions of senior officers and members. Internal audit's focus on risk and internal controls and detailed knowledge of its client body places it in a powerful position to detect issues of propriety. Close liaison with a body's internal audit is therefore likely to greatly help external auditors undertaking a review of propriety to achieve a thorough understanding of the business.

The Chief Executive has forwarded the paper on propriety to the Director of Corporate and Legal Services for his attention and action as appropriate.

2. RECOMMENDATIONS

- 2.1 The Audit Committee note the publication of the paper and the remit given to the Director of Corporate and Legal Services to recognise and act on as appropriate.
- 2.2 The Audit Committee note that the paper is intended as guidance to public sector managers and to provide clarification on the type of work that auditors of public sector bodies may undertake in the area of propriety.
- 2.3 Internal audit recognise the contribution that they can make in the area of propriety by being aware of the paper and liaising with external audit in any review of propriety carried out by them.

Stewart McGregor
Director of Finance
9 October 2001
[reports/8novauditcommproprietyandauditintheopublicsector](#)

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ARGYLL AND BUTE COUNCIL
FINANCE

AUDIT COMMITTEE
8 NOVEMBER 2001

REVIEW OF INTERNAL AUDIT: SUPPLEMENTARY REPORT – DR A MIDWINTER

1. SUMMARY

Dr Midwinter has issued his supplementary report following the Accounts Commission report on Internal Audit "*A Job Worth Doing – Raising the Standard of Internal Audit in Scottish Councils*" – copies of these reports are attached.

The Accounts Commission report places Argyll and Bute in band 4 (the lowest band in terms of non-compliance with the Code of Practice on Internal Audit). Dr Midwinter points out that this is not a situation the Council can accept, but the report is already dated as the Council has already taken action on several of the issues. He makes reference to six critical factors (on page 8 of the report) and points out that the establishment of the Audit Committee and the implementation of his report enhances the Council's position with regard to terms of reference/objectives; independence; resourcing; and accountability arrangements.

The formation of a partnership arrangement on the delivery of internal audit services, as approved by the full Council is intended to move the internal audit service forward quickly including compliance with the Code of Practice on Internal Audit. It is planned to commence the partnership arrangement in January 2002, following a tendering exercise.

2. RECOMMENDATIONS

- 2.1 The Audit Committee note that the Accounts Commission report highlights key weaknesses in the arrangements for internal audit in Argyll and Bute and note also that progress has already been made in tackling these weaknesses by implementing Dr Midwinter's recommendations including the move towards forming a partnership arrangement.
- 2.2 The Audit Committee monitor the position to ensure that objectives are being achieved.
- 2.3 The supplementary report prepared by Dr Midwinter be submitted to the Accounts Commission together with the minute of this committee meeting, to demonstrate the Council's commitment and response to the report.

Stewart McGregor
Director of Finance
8 October 2001

reports/8novsmgaudcommitteeDrMidwinter

ARGYLL AND BUTE COUNCIL

Best Value Review of Internal Audit: A Supplementary Report

Purpose

1. The Accounts Commission study of internal audit arrangements has now been published, and the purpose of this supplementary report is to advise the council regarding its implications for Argyll and Bute.

Summary

2. The Report – *A Job Worth Doing – Raising the Standard of Internal Audit in Scottish Councils* – assesses the extent to which councils comply with the CIPFA Code of Practice for Internal Audit in local government. It concludes that *all* councils need to take action to improve internal audit, both in terms of compliance with the Code of Practice, and to meet new challenges such as Best Value. In particular, where the room for improvement is significant (as in the case of Argyll and Bute) they advocate a fundamental appraisal of options, including market testing.
3. The methodology is based on interview fieldwork, and whilst some statistical data is presented, the judgements made are essentially qualitative. They confirm my own conclusions regarding structure, resources and workload, and raise others regarding audit practice. The auditors use 97 tests, and summarise their findings into 15 statements of good practice, and six critical factors for success.

Councils were grouped in four bands, and Argyll and Bute placed in Band 4 – Councils that generally do not comply with the code (scoring less than 48%). Argyll and Bute Council is assessed to be below standard in eleven of the fifteen tests.

Observations

4. Obviously, this is not a situation the Council can accept, but the report is already dated, as the Council has already taken action on several of the issues through my own report. These are set out below:
5. The report confirms my own judgements over resourcing and workload, and the need for effective internal audit as part of sound arrangements for financial administration. Whilst the report shows the council as having the seventh highest ratio of internal audit staff to council employees, (Exhibit 5, p 17) it also confirms that the staff are less qualified than the norm (p 18) and lack specialist IT and VFM skills.
6. It also shows that Argyll and Bute has the fourth largest workload in terms of days planned for systems and regularity audit (Exhibit 13, p 31), providing a combination of less qualified staff, overambition in workload, and lack of involvement in non-internal control tasks such as Best Value Reviews, VFM; consultancy, and risk management.
7. The plus points are that the council has ensured the independent status of Internal Audit; has clear reporting arrangements; and the Chief

Internal Auditor promotes and maintain professional standards. I would disagree with the reports judgement that Internal Audit has the necessary *organisational status* to perform effectively. In my experience the *Chief Internal Auditor has*, and that implementation of my recommendations will enhance the status of the service as a whole.

8. Looking at the six critical factors (p 8) the establishment of the Internal Audit Committee and the implementation of my report will enhance the Council's position with regard to terms of reference/objectives; independence; resourcing; and accountability arrangements.
9. The two crucial factors where improvement is necessary are in *Audit Planning and Management*; (Factor 3) and *Monitoring* (Factor 4). The new partnership agreement must specifically address the weaknesses in planning; risk assessment; monitoring and implementation; and performance management; and must provide the necessary management and analytical skills and enhance staff training and development.
10. It is for the Audit Committee through Internal Audit to develop a mechanism with the Council whereby corporate lessons are learnt, and implementation of recommendations achieved.
11. The Council should be clear that this report uses a Code of Practice to stimulate improvements, not attack failure. The purpose of such

standard setting is to take practice forward, and professionals do not set standards which are already met. In commissioning my report, the Director of Finance has shown that he is not complacent, but keen to make positive progress. The Accounts Commission will welcome this, and I would advise the Council to pass this report to them for information .

12. The final point to make is the confirmation in the report that the role of Internal Audit is expected to change to support “corporate governance and performance” through active participation in Best Value Work where expertise in systems can assist. Internal Audit is also expected to ‘challenge the status quo’ and ‘support continuous improvement’. A word of caution is necessary here. Argyll and Bute is a small council with limited resources. In my view, in the short-run it would be better for Internal Audit to be involved in corporate BV/VFM exercises than carrying these out directly. Moreover, the Audit Committee needs to reach a view and make recommendations to the Council on Accounts Commission VFM Studies on an independent basis. My understanding is that responses to such reports are handled departmentally at the moment. It would be sound practice to have an audit view on such reports in terms of efficiency, VFM and wider corporate lessons for the Council and the Committee needs to consider how this will be achieved. (i.e. through the partnership agreement, the Director of Finance etc).

Conclusion

13. The Accounts Commission report highlights key weaknesses in the arrangements for internal audit in Argyll and Bute. The Council has already made significant progress in tackling these, and further improvements in audit practice will result from the new partnership agreement. The position needs to be closely monitored to ensure objectives are being achieved.

28.8.01

Professor Arthur Midwinter



PERFORMANCE AUDIT

A job worth doing

Raising the standard of internal audit in Scottish councils



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The Accounts Commission

The Accounts Commission is a statutory, independent body, which through the audit process, assists local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources. The Commission has five main responsibilities:

- securing the external audit
- following up issues of concern identified through the audit, to ensure satisfactory resolutions
- reviewing the management arrangements which audited bodies have in place to achieve value for money
- carrying out national value for money studies to improve economy, efficiency and effectiveness in local government
- issuing an annual direction to local authorities which sets out the range of performance information which they are required to publish.

The Commission secures the audit of 32 councils and 34 joint boards (including police and fire services). Local authorities spend over £9 billion of public funds a year

Audit Scotland

Audit Scotland is a statutory body set up in April 2000, under the Public Finance and Accountability (Scotland) Act 2000. It provides services to both the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Executive and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Audit Scotland prepares reports for local government on behalf of the Accounts Commission.

The Commission welcomes comments and enquiries about its reports. Comments on this report should be directed to John Lincoln, Martin Christie or Douglas Black, in Performance Audit, Audit Scotland.

Acknowledgements

We would like to thank the study's Advisory Group, comprising a range of experts from councils and other bodies. The Group provided valuable advice and acted as a useful sounding board for the study team. Thanks also to the panel of external auditors who assisted us during the course of the study and in undertaking the peer review of councils' assessments.

The Accounts Commission takes sole responsibility for the contents of this report

Key points

The study assessed the level of councils' compliance with the CIPFA Code of Practice for Internal Audit in Local Government ...

- ... when assessed against the CIPFA Code, we found that there is room for improvement in all councils, but some performed significantly better than others.
- ... Comhairle nan Eilean Siar, East Ayrshire, East Renfrewshire and West Lothian almost fully complied with the Code.
- ... Argyll & Bute, East Dunbartonshire, Inverclyde and Shetland complied with fewer than half of the standards in the Code.
- ... almost two thirds of councils (20) complied with more than 70% of the standards in the Code.

Councils invest £9.3 million a year in internal audit services, employing 265 staff ...

- ... there is considerable variation in the number of internal audit staff employed among councils of similar size.
- ... every Scottish council has its own internal audit service resourced by in-house staff. This contrasts with the NHS where consortia of in-house staff provide internal audit services to eight health board areas. The private sector provides internal audit services in the remaining seven health board areas.

Features most commonly found in the better performing councils, which were usually absent in the poorer performing councils, included ...

- ... the presence of an audit committee, or equivalent, to hold internal audit to account and ensure agreed audit recommendations are implemented.
- ... the use of comprehensive risk assessment to determine the council's internal control priorities and the work of internal audit.
- ... a richer skill-mix, which may be reflected in above-average unit staff costs, but not necessarily higher total audit costs.
- ... annual reporting by the chief internal auditor giving an overall assessment of internal controls.

All councils need to take action to improve ...

- ... effective internal audit sections can look forward to the challenges and opportunities presented by the greater use of audit committees, the proposals to introduce internal control statements, the growth in e-commerce, and Best Value.
- ... all councils should use this report, and their local external audit reports, to achieve full compliance with the Code.
- ... where the room for improvement is significant, there is a strong case for councils undertaking a fundamental appraisal of options for securing effective internal audit provision, including testing what the market might provide.
- ... external auditors will be monitoring council improvement actions.

Executive summary

Background

The Accounts Commission aims to ensure that all councils achieve the highest standards of financial stewardship, governance and public accountability. However, in recent years, there have been a number of instances where external auditors of councils have reported weaknesses in internal audit. The Commission requested Audit Scotland to carry out this national study to:

- establish a clear picture of the performance of internal audit services in all councils in Scotland
- provide benchmarking data to support continuous improvement.

Council performance was assessed against the standards set by the CIPFA Code of Practice for Internal Audit in Local Government.

Local authorities' investment in internal audit services

Every Scottish council has its own internal audit service resourced by in-house staff (with Comhairle nan Eilean Siar having a partnership agreement with a private sector firm to provide quality control). This contrasts with the NHS where consortia of in-house staff provide internal audit services to eight health board areas. The private sector provides internal audit services in the remaining seven health board areas.

The total amount invested in internal audit in all 32 Scottish councils is £9.3 million – about 0.1% of aggregate council expenditure. There are 300 full-time equivalent (FTE) established posts of which 265 were filled at the date of the study. Ten councils also provide internal audit services to other public bodies, for example, local police, fire and other joint boards. This work accounts for between 2-5% of total internal audit staff time in the councils concerned. There is considerable variation in the number of internal audit staff employed among councils of similar size.

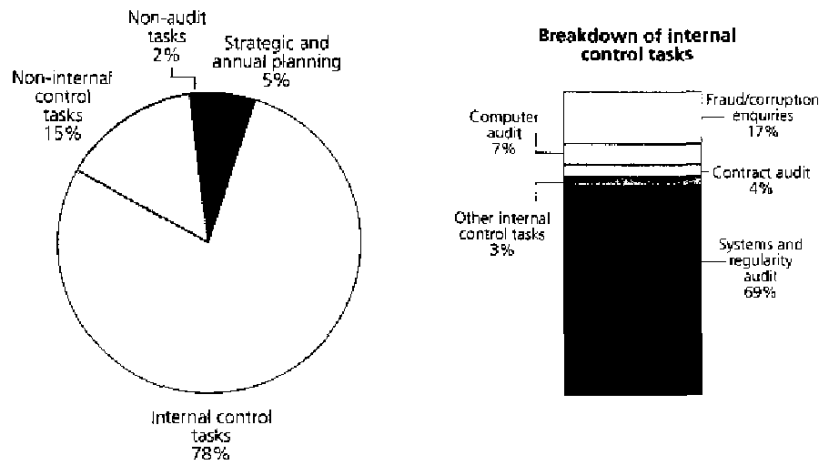
What internal audit does

Internal audit is an 'independent appraisal function established by the management of an organisation for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic efficient and effective use of resources'¹.

All internal audit sections undertake broadly similar types of work. This involves reviewing and testing the internal controls of key financial and non-financial systems, investigating any frauds or irregularities and, in some councils, specialist computer audit and contract audit work (Exhibit 1).

Exhibit 1: Internal audit workload

More than three-quarters of internal audit time is spent on internal control tasks.



Source: Local audit returns

How we assessed councils

The approach and methodology was developed in consultation with the study advisory group, the Scottish Local Authorities Chief Internal Auditors' Group, and a panel of external auditors. It involved identifying critical success factors for internal audit and establishing a framework of issues to be used in assessing the level of council compliance with the CIPFA Code.

Six critical factors were identified (Exhibit 2), with these being supported by 15 statements of good practice and 97 tests on individual council processes and outcomes (Exhibit 3).

Exhibit 2: Critical success factors

The study identified six critical success factors for internal audit.

1. Setting clear and properly focused objectives for internal audit
2. Maintaining internal audit independence
3. Planning and controlling the work of internal audit
4. Resourcing the internal audit work programme
5. Having effective reporting and follow-up arrangements
6. Holding internal audit to account for its performance

Source: Audit Scotland

Exhibit 3: Structure of the assessment

Fifteen statements of good practice and 97 tests on council processes and outcomes support the six critical success factors.

Six critical success factors	Fifteen statements of good practice	Ninety-seven tests on individual council processes and outcomes
eg, Having effective reporting and follow-up arrangements.	eg, Internal audit has clear reporting arrangements that provide management with an opinion on the adequacy of internal control.	eg, Internal audit produces clear, concise and constructive written reports.

Source: Audit Scotland

External auditors conducted their independent assessments in February 2001, based on interviews and evidence gathered from each council's chief executive, director of finance and chief internal auditor. Client surveys of managers in education, housing, and social work services were also undertaken to obtain their assessment of internal audit performance in their service area.

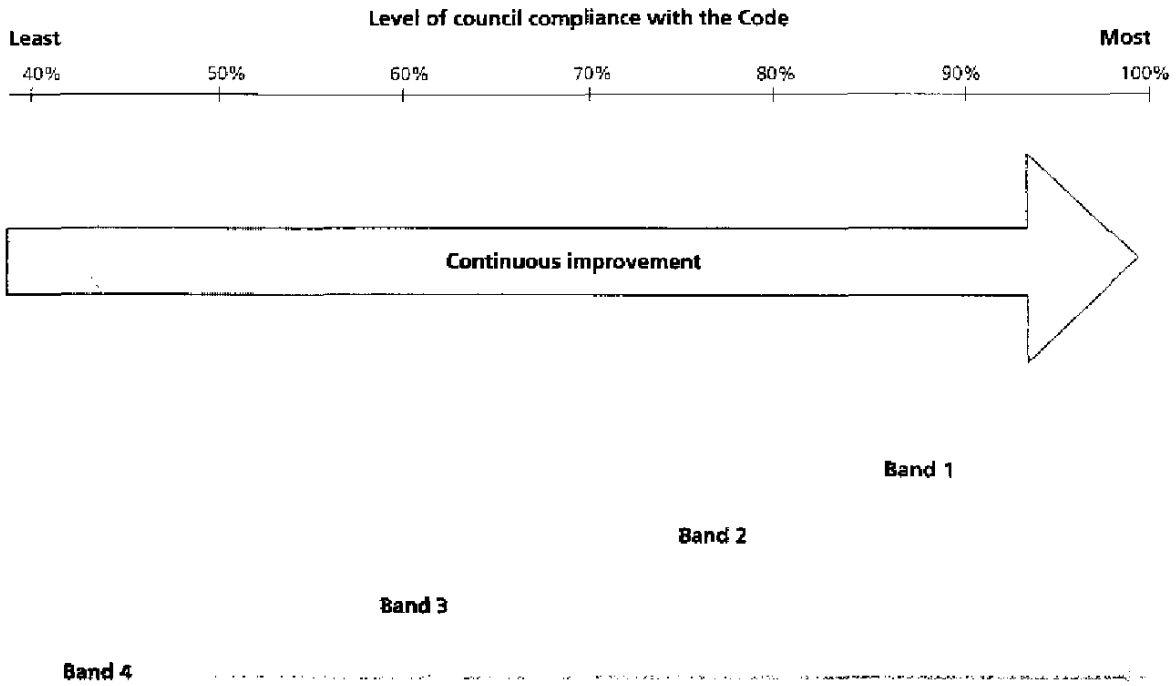
How councils performed

The study found that there is room for improvement in internal audit in all councils, but some councils perform significantly better than others (Exhibit 4). Councils are grouped according to their assessed level of compliance with the Code and listed in alphabetical order within the four performance bands. The better performing councils tend to perform well across the board, whereas councils in the lowest band of performance tend to perform poorly in most areas.

No council complied completely with the Code, but four councils – Cornhairle nan Eilean Siar, East Ayrshire, East Renfrewshire and West Lothian were found to comply most fully (over 85% compliance). The councils with the lowest level of compliance with the Code were Argyll & Bute, East Dunbartonshire, Inverclyde and Shetland (below 50% compliance). Twenty councils complied with more than 70% of the standards in the Code.

Exhibit 4: Extent of council compliance with the CIPFA Code of Practice

All councils need to improve their compliance with the Code. Councils in bands 3 and 4 have the most to do.



Band 4
39% - 48%

Councils that generally do not comply with the Code

- Argyll & Bute
- East Dunbartonshire
- Inverclyde
- Shetland Islands

Band 3
54% - 67%

Councils that partially comply with the Code

- Clackmannanshire
- Falkirk
- Midlothian
- North Ayrshire
- North Lanarkshire
- Orkney Islands
- South Ayrshire
- West Dunbartonshire

Band 2
72% - 81%

Councils that generally comply with the Code

- Aberdeen City
- Aberdeenshire
- Angus
- Dumfries & Galloway
- Dundee City
- East Lothian
- Edinburgh, City of
- Fife
- Glasgow City
- Highland
- Moray
- Perth & Kinross
- Renfrewshire
- Scottish Borders
- South Lanarkshire
- Stirling

Band 1
85% - 90%

Councils that most fully comply with the Code

- Comhairle nan Eilean Siar
- East Ayrshire
- East Renfrewshire
- West Lothian

Note: Councils are listed in alphabetical order within each performance band.

Source: Audit Scotland

The support and commitment of councillors, senior management, particularly the director of finance and chief executive, are key factors in developing an effective internal audit service. Some features most commonly found in the better performing councils, which were usually absent in the poorer performing councils, included:

- The presence of an audit committee, or equivalent, to hold internal audit to account and to ensure agreed audit recommendations are implemented.
- The use of comprehensive risk assessment to determine the council's internal control priorities and the work of internal audit.
- A richer skill-mix, which may be reflected in above-average unit staff costs, but not necessarily higher total audit costs. There is a significant correlation between the assessment score and the cost per audit day ($r^2 = 0.49$).
- Annual reporting by the chief internal auditor giving an overall assessment of internal controls.

The assessments highlighted a number of areas where improvement actions are required in a significant number of councils. For example:

- In 15 councils, the line-management arrangements for chief internal auditors did not comply with the Code (ie, their line manager was at a lower organisational level than the responsible finance officer). In these councils, there is a risk that the status and independence of the chief internal auditor may be compromised.
- In ten councils, internal audit did not maintain open channels of communication with members.
- 16 councils did not have defined control objectives for all major systems.
- 11 councils did not have an adequate anti-fraud and corruption strategy.
- Internal audit time spent on systems and internal control was more than 10% under-budget in 14 councils.
- 18 internal audit services did not use the results of follow-up work to update their risk assessment.
- In ten councils, the chief internal auditor did not co-ordinate and review the training and development requirements of their staff. In 13 councils, there was no induction programme for new staff.
- In nine councils, there was scope for chief internal auditors to further develop their use of performance indicators to measure the performance of their service.

The assessments also highlighted a number of areas of good practice. For example:

- Over 90% of service managers surveyed felt that internal audit recommendations were concise, clear and constructive.
- Service managers were generally satisfied with the time taken by internal audit to submit its draft and final reports.
- Internal audit generally had good working relationships with their external auditors, inspectorates and other review agencies.
- Standards of professional and ethical behaviour of internal audit staff were high across all councils.
- Five councils had independent accreditation (eg, ISO 9000 or 9002), which can assist in ensuring that the appropriate standards are in place.

Opportunities for the future

All internal audit services need to embrace a culture of continuous improvement, adopting proven best practice from other public sector and private sector organisations. Best Value and other initiatives are fundamentally changing the way councils work and this presents

opportunities as well as challenges for internal audit services. These include:

- **The introduction of audit committees and revised council structures.** Sixteen councils now have audit committees (or equivalent).
- **The changing role of internal audit.** Internal audit is emerging from its traditional 'policing' role to developing a more proactive corporate role. This changing role demands broader competencies than those of traditional audit services.
- **Expansion in the use of ICT.** The growing use of e-commerce and electronic signatures is placing greater demands on councils for expert skills in computer audit.
- **Getting improved value from council resources.** There is an opportunity for internal audit to develop new and improved ways of working to enable it to manage its resources more effectively.
- **The likely introduction of internal (financial) control statements (ICS).** These have been successfully introduced in other parts of the public and private sectors as a means of providing assurance to shareholders or stakeholders on the adequacy of internal controls within the organisation. The CIPFA LASAAC Joint Committee is actively considering the introduction of ICS to local government accounts.

However, in order to be able and well placed to meet these challenges councils need to ensure that internal audit is undertaking its core work effectively.

Challenging councils to improve

All councils have individual reports from their external auditor, assessing their level of compliance with the CIPFA Code of Practice. These show that some have a lot to do in raising their standards to those reflected in the Code. Each council is expected to implement the agreed recommendations contained in their external auditor's report.

Where the room for improvement is significant (particularly those councils falling within performance band 4), substantial progress is needed in a short space of time. There is a strong case for these councils testing current provision against what the market might provide. This would involve looking at options that would provide a high-quality service that ensures that the council's control objectives are met, at acceptable cost. These options would include:

- buying in specialist skills, for example, computer audit expertise
- entering into consortia arrangements with other councils
- partnership arrangements with the private sector
- externalising service provision.

Irrespective of who provides the service, the critical factors that underpin a Best Value internal audit service remain the same. All councils should be looking to develop sound internal control arrangements where:

- **councillors** are demonstrably committed to supporting the need for a sound internal control environment, including internal audit
- **senior managers** are demonstrably committed to maintaining effective internal controls and implementing sound internal audit arrangements
- **chief internal auditors** demonstrably provide an excellent internal audit service.

Exhibit 5 provides a checklist that highlights the key messages for an effective internal audit service. It should help councillors, chief executives, senior managers and chief internal auditors to ensure that their council has these arrangements in place. External auditors will be monitoring progress.

Exhibit 5: Achieving a Best Value internal audit service – a checklist for councillors, chief executives, senior managers and chief internal auditors

Critical factors	Key enabling factors
1. Setting clear and properly focused objectives for internal audit	<ul style="list-style-type: none"> ■ Is the council committed to establishing an effective internal audit service? ■ Does internal audit have clear terms of reference agreed by senior management and communicated these across the council? ■ Does internal audit have a good understanding of the risks facing the council, developed in consultation with all service managers?
2. Ensuring that internal audit is independent	<ul style="list-style-type: none"> ■ Does internal audit have direct access to councillors, the chief executive and the director of finance? ■ Does internal audit have (and is it seen to have) independence from operational procedures? ■ Does internal audit have the right of final edit in submitting reports?
3. Making sure the work of internal audit is properly planned	<ul style="list-style-type: none"> ■ Does internal audit's planned work support the corporate objectives of the council? ■ Does internal audit ensure that all planned work reflects the results from its systematic assessment of the council's risks? ■ Does internal audit plan a sufficient contingency to accommodate unforeseen work, enabling it to complete its planned work within time-scale?
4. Making sure internal audit is adequately resourced	<ul style="list-style-type: none"> ■ Does senior management ensure that internal audit has the resources required to meet the internal control needs of the council? ■ Does the council recruit and train suitably skilled internal audit staff? ■ Has senior management given authority to the chief internal auditor to access specialist skills to tackle complex areas?
5. Ensuring that internal audit findings are reported and followed up	<ul style="list-style-type: none"> ■ Does internal audit report weaknesses in internal control for action by management? ■ Does senior management systematically encourage all managers to implement report recommendations within agreed time-scales? ■ Does internal audit report any failure by management to implement agreed recommendations? ■ Does internal audit provide an annual report, providing an overall view on the soundness of the council's internal control systems?
6. Ensuring that internal audit is held to account for its performance	<ul style="list-style-type: none"> ■ Does the council have an audit committee or equivalent to <ul style="list-style-type: none"> – approve internal audit work plans? – review internal audit's output and performance and ensure that it completes its programme of work? act as a conduit for receiving audit reports and call service managers to account? ■ Does internal audit prepare annual performance plans, setting out its achievements and targets? ■ Does internal audit maintain an effective performance management framework to continuously review and improve its performance?

1. Introduction

Why look at internal audit?

Scotland's councils are required to have in place arrangements for ensuring propriety, regularity and value for money in their stewardship of public funds². It is the responsibility of management to ensure that adequate internal controls³ are in place to:

- ensure sound corporate governance
- ensure that their council's resources are applied in the manner and on the activities intended
- prevent, detect and deter fraud and impropriety
- ensure the most economic, efficient and effective use of resources.

Internal audit supports management in maintaining sound corporate governance and internal controls. It does this by independently examining and evaluating council systems, and reporting any inadequacies in internal control for action by management.

The Accounts Commission aims to ensure that all councils achieve the highest standards of financial stewardship, governance and public accountability. However, in recent years, there have been a number of instances where external auditors of councils have reported weaknesses in internal audit. The Commission requested Audit Scotland to carry out this national study to:

- establish a clear picture of the performance of internal audit services in all councils in Scotland
- provide benchmarking data to support continuous improvement.

There have been a number of developments in recent years to strengthen corporate governance and internal control in both public and private sectors. These developments have had a significant impact on the way an internal audit function should operate.

In the private sector⁴, these include the Cadbury report, which set out a code of best practice for corporate governance in listed companies, including the role of audit committees and internal audit. More recently, the Turnbull report set out guidance for directors on internal control to meet the listing rules of the stock exchange, including the need for internal audit and the requirement for the board to produce a statement on internal control.

In the public sector, examples include the introduction of internal financial control assurance statements and audit committees in the NHS, and the adoption of audit committee principles by an increasing number of councils in Scotland.

There are a number of recent initiatives in local government that will also have an impact on councils' arrangements for internal audit including:

- The Leadership Advisory Panel (LAP)⁵, which reported to Ministers in June 2001 making recommendations for councils' scrutiny arrangements and how they account for their performance. These will have implications for scrutiny and audit committees and the reporting arrangements for internal audit.

- The joint report by CIPFA and SOLACE published in June 2001⁶, which sets out a framework for corporate governance in local authorities, including:
 - a systematic strategy for risk management and internal control
 - the publication of an annual report presenting an objective, understandable account and assessment of the council's:
 - activities and achievements
 - financial position and performance.

Other developments that present significant challenges for internal audit in the public sector include the modernising government agenda and electronic service delivery. The implications of these for audit have been considered in reports⁷ published by the Public Audit Forum⁸.

All of these factors will have an impact on councils' arrangements for internal audit and the skills that internal auditors will need to provide an effective audit service.

This report provides a national overview. It assesses current council performance and makes recommendations that will assist all councils to develop excellent internal audit services in the future. Details of the specific steps that need to be taken by individual councils are contained in their local external audit reports and action plans.

Study objectives and methodology

The aim of this study is to help councils to achieve Best Value from their internal audit arrangements. There are three main objectives:

1. to assess the extent to which councils' internal audit services meet the standards of good practice set out in the CIPFA Code of Practice for Internal Audit in Local Government⁹
2. to promote best practice in internal audit and encourage councils to fully comply with the Code
3. to make recommendations that will help all councils develop a Best Value internal audit service.

The approach and methodology was developed in consultation with the study advisory group (Appendix 1), the Scottish Local Authorities Chief Internal Auditors' Group, and a panel of external auditors. It involved identifying critical success factors for internal audit services and establishing a framework of issues to be used in assessing the level of council compliance with the CIPFA Code.

Six critical success factors were identified (Exhibit 1), supported by 15 statements of good practice and 97 tests on individual council processes and outcomes (Exhibit 2).

Exhibit 1: Critical success factors

The study identified six critical success factors for internal audit.

1. Setting clear and properly focused objectives for internal audit
2. Maintaining internal audit independence
3. Planning and controlling the work of internal audit
4. Resourcing the internal audit work programme
5. Having effective reporting and follow-up arrangements
6. Holding internal audit to account for its performance

Source: Audit Scotland

Exhibit 2: Structure of the assessment

Fifteen statements of good practice and 97 tests on council processes and outcomes support the six critical success factors.

Six critical success factors	Fifteen statements of good practice	Ninety-seven tests on individual council processes and outcomes
eg, Having effective reporting and follow-up arrangements.	eg, Internal audit has clear reporting arrangements that provide management with an opinion on the adequacy of internal control.	eg, Internal audit produces clear, concise and constructive written reports.

Source: Audit Scotland

Exhibit 3 sets out the relationship between the six critical success factors and the 15 statements of good practice.

Exhibit 3: The critical success factors and their linked statements of good practice

Councils' internal audit services were assessed against these statements of good practice.

Critical success factors	Statements of good practice
1. Setting clear and properly focused objectives for internal audit	1. Internal audit has agreed terms of reference. 2. The respective roles of management and internal audit in maintaining internal control are clearly defined and communicated. 3. Internal audit has a clear role in relation to fraud
2. Maintaining internal audit independence	4. Internal audit has sufficient organisational status to be able to undertake its work effectively. 5. Internal audit is free of operational responsibilities that could compromise its independence. 6. Internal audit bases its work on a comprehensive risk assessment.
3. Planning and controlling the work of internal audit	7. Internal audit operates within a structured planning framework. 8. Internal audit has effective relationships with council members, council managers, external audit, inspectorates and other agencies. 9. Internal audit properly manages, controls and records its work.
4. Resourcing the internal audit work programme	10. Internal audit is adequately staffed and resourced 11. Internal audit staff are suitably trained and developed.
5. Having effective reporting and follow-up arrangements	12. Internal audit has clear reporting arrangements that provide management with an opinion on the adequacy of internal controls. 13. Internal audit follows-up recommendations to ensure action is taken.
6. Holding internal audit to account for its performance	14. Internal audit has a performance management framework that ensures continuous review of its performance. 15. The chief internal auditor promotes and maintains professional standards in internal audit

Source: Audit Scotland

External auditors used this performance framework to conduct their independent assessments. These were based on:

- interviews and evidence gathered from each council's chief executive, director of finance and chief internal auditor
- surveys of the heads of education, housing and social work services in all councils to obtain their assessment of internal audit performance in their service areas
- benchmarking information collected on each council's internal audit service, including an analysis of staffing numbers, expenditure and workload.

Details of the assessment and scoring methodology are given in Appendix 2, and the results are given in Appendices 3 and 4. In addition, the study team also visited a number of councils and interviewed councillors who were members of audit committees.

Structure of the report

The report is in four sections.

Section 2 – describes the role and the requirement for internal audit in councils. It also looks at the level of resources Scottish councils invest in internal audit.

Section 3 – summarises the results of the external audit assessments. It highlights specific areas where there is scope for councils to improve internal audit performance and makes recommendations for making the necessary improvements.

Section 4 – describes the main challenges facing councils in providing Best Value internal audit services. It summarises the key actions that councils need to take to ensure that their internal audit services are fit to meet the challenges facing them. An action checklist comprising the key messages is included for use by councillors, chief executives, senior managers and chief internal auditors.

Appendices:

- membership of the study advisory group (Appendix 1)
- assessment and scoring methodology (Appendix 2)
- results of external audit assessments for each council (Appendix 3)
- scores for each of the 97 tests (Appendix 4)
- client survey findings (Appendix 5)
- views of chief executives and directors of finance (Appendix 6)
- notes.

2. The internal audit service

Why have internal audit?

Internal audit provides a valuable service to councils by helping them to implement cost-effective and efficient systems of internal control, and by providing senior management and members with assurance that internal control systems are operating effectively.

Effective internal audit is not only essential for sound corporate governance, it can also add value, for example, by both assisting the council to obtain Best Value from its resources and by providing advice to service managers and staff.

In Scotland, as in England and Wales, legislation provides that authorities: "shall make arrangements for the proper administration of their financial affairs...". However, in respect of securing effective internal audit, the position is different. In England and Wales, specific provision is contained in legislation (The Accounts and Audit Regulations 1996 (SI 1996/590)), whereas in Scotland, effective internal audit is commended as good practice in a Scottish Office Circular (Exhibit 4). The combination of the Local Government (Scotland) Act and the Circular has the effect of ensuring that all councils in Scotland make appropriate arrangements for internal audit. The importance of internal audit would be reinforced by making it a statutory requirement.

Exhibit 4: The requirement for internal audit in councils in Scotland, and in England and Wales

The legislative requirements for internal audit differ north and south of the border.

	England and Wales	Scotland
Requirement for proper administration of financial affairs	Section 151 of the Local Government Act 1972, requires that authorities: "shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs."	Section 95 of the Local Government (Scotland) Act 1973 specifies that every local authority: "shall make arrangements for the proper administration of their financial affairs and shall secure that the proper officer has responsibility for those affairs."
Requirement for internal audit in councils	The Accounts and Audit Regulations 1996 (SI 1996/590) require that a: "relevant body shall maintain an adequate and effective system of internal audit of their accounting records and control systems."	Scottish Office Circular 5/85 states: "effective internal audit cover is regarded as a matter of good practice."

Source: CIPFA Code of Practice for Internal Audit in Local Government

The complementary roles of internal and external audit

Internal audit and external audit have different but complementary roles.

Internal audit is 'an independent appraisal function established by the management of an organisation for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources'¹⁰.

The role of external audit is to undertake an independent appraisal of the discharge by management of its stewardship responsibilities, to enable the external auditor to assess and report on whether those responsibilities have been reasonably discharged. This involves:

- reviewing and testing the effectiveness of the internal controls in place
- reviewing the council's arrangements for securing economic, efficient and effective use of its resources
- providing an opinion on the council's financial statements.

External auditors review the work undertaken by internal audit as part of their review of the council's internal control framework. They look to rely on internal control reviews undertaken by internal audit, to make the most efficient use of the combined audit resource. It is therefore important that there are good channels of communication between external and internal audit.

An effective internal audit can contribute significantly to reducing the work of external audit. Audit Scotland provides a flexible arrangement for external auditors to agree appropriate audit fees with councils, taking into account the standard of corporate governance, including the quality and coverage of the work undertaken by internal audit. In future, public bodies with good internal control procedures will be expected to negotiate lower fees.

The role and organisational framework for internal audit

Within each council, there are a number of key stakeholders who have an important role in ensuring that their council benefits from an effective internal audit service:

- **the chief executive** who looks to internal audit to provide objective assurance on the effectiveness of the council's risk management and internal control framework, and to assist the council to achieve the highest standards of corporate governance and financial stewardship.
- **the Section 95 officer, normally the director of finance** who is responsible for ensuring that the council:
 - has arrangements for the proper administration of its financial affairs
 - has put in place effective arrangements for the internal audit of its systems of internal control.
- **the chief internal auditor** who is responsible for ensuring that internal audit makes a significant and positive contribution to the council by, for example:
 - providing advice on the management of risk, especially on issues surrounding the design, implementation and operation of systems of internal control
 - enhancing efficient and effective risk and control management by recommending controls to avoid operational losses
 - providing advice to all parts of the council on good risk identification and internal control procedures.

- **service managers** who are responsible for ensuring that effective internal controls are in place in their service, who contribute to the council's risk assessment processes and who, drawing on the advice of internal audit, design and operate systems to minimise the risks to which the council is exposed.
- **the chair of the audit committee** (or equivalent group) who is concerned to ensure that the council receives objective assurance as to the adequacy and effectiveness of its risk management and internal control framework. An increasing number of councils are introducing audit committees. This is looked at in detail in Section 3.

All chief internal auditors require operational independence in order to be seen to exercise their own professional judgement. Free access to each of these key stakeholders is therefore essential in enabling chief internal auditors to fulfil their role effectively. Auditing standards, for example, those of the Institute of Internal Auditors, reinforce the requirement of the chief internal auditor to have direct access to the chief executive and the chair of the audit committee (or equivalent).

Resourcing the internal audit service

Every Scottish council has its own internal audit service resourced by in-house staff. (Comhairle nan Eilean Siar has a partnership arrangement with the private sector. It has three in-house staff, headed by a qualified accountant, with the quality assurance role being provided by a private firm.) This contrasts with the NHS where consortia of in-house staff provide internal audit services to eight health board areas. The private sector provides internal audit services in the remaining seven health board areas.

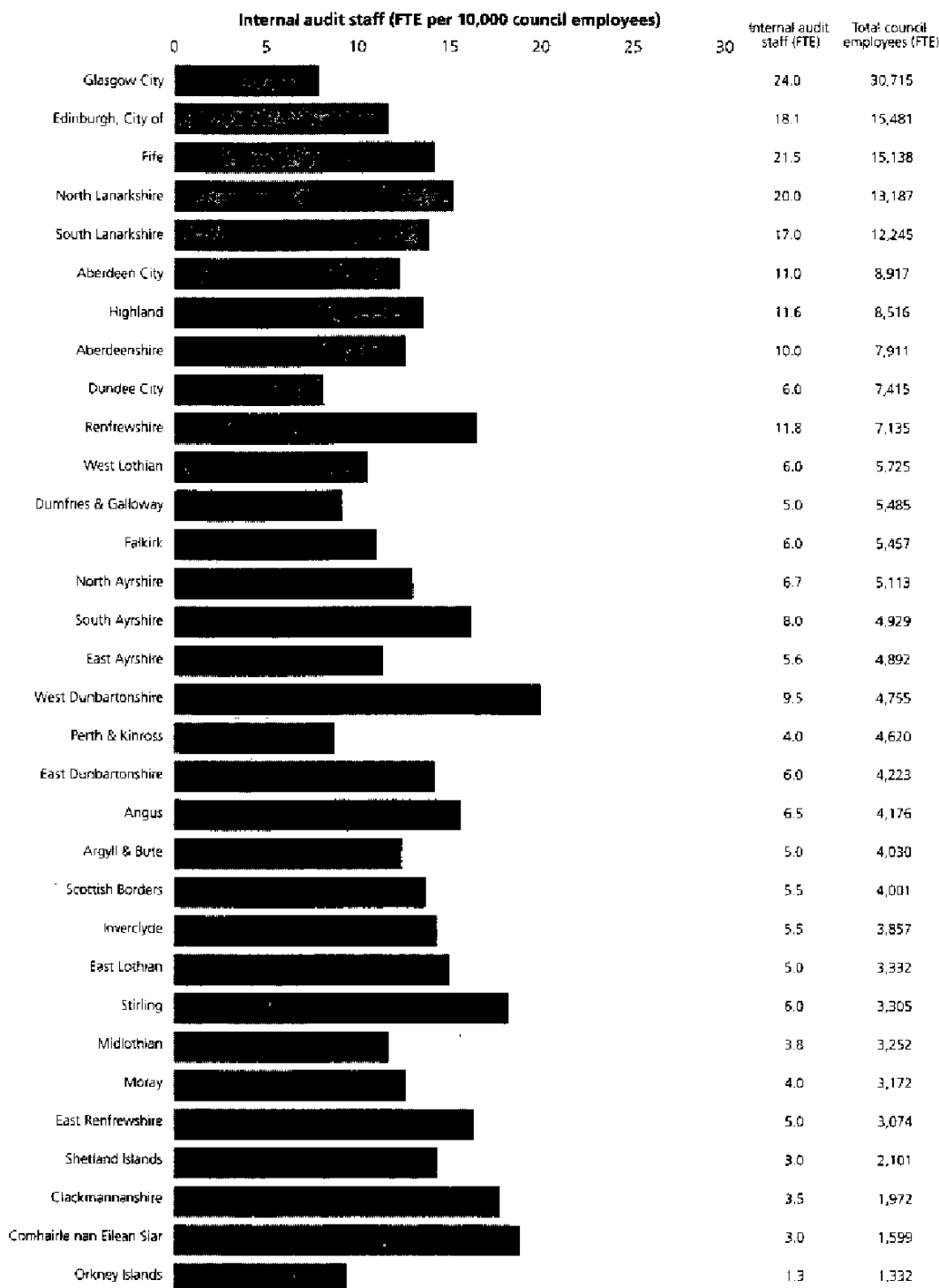
The total amount invested in internal audit in all 32 Scottish councils is £9.3 million – about 0.1% of aggregate council expenditure¹⁶. There are 300 full-time equivalent (FTE) established posts of which 265 were filled, at the date of the study. Ten councils also provide internal audit services to other public bodies, for example, local police, fire and other joint boards. This work accounts for between 2-5% of total internal audit staff time in the councils concerned.

The Institute of Public Finance (IPF) has recently benchmarked the level of investment in internal audit, north and south of the border (£ invested per £m council spend). It identified that, on average, unitary councils in England and Wales spend some 40% more on internal audit than councils in Scotland, with more days being invested at broadly comparable daily rates.

The size of internal audit services varies significantly between councils, ranging from 24 FTE in Glasgow to 1.3 FTE in Orkney (Exhibit 5). Economies of scale may apply in the larger councils, but there is wide variation in the proportion of internal audit staff employed by broadly comparable councils.

Exhibit 5: The number of internal audit staff (FTE per 10,000 council FTE employees)

There is wide variation in the proportion of internal audit staff employed by broadly comparable councils.



Note: Councils are listed in order of the number of total council employees in post at the time of the study.

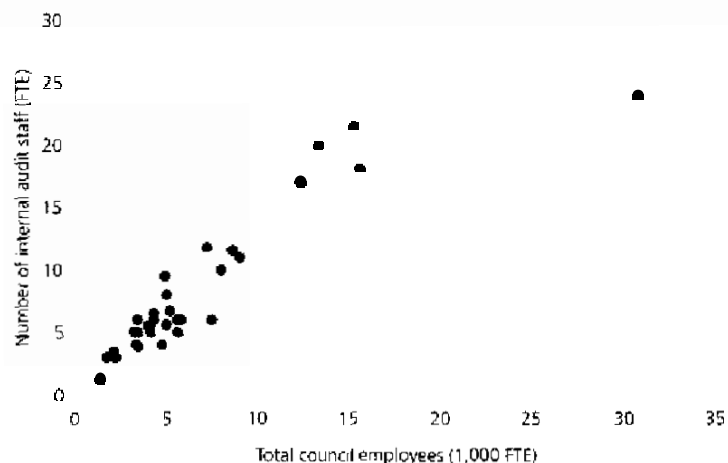
Source: Local audit returns and Joint Staffing Watch (March 2001)

Some of these variations are caused by differences in organisational arrangements between councils. For example, some internal audit services provide services in addition to mainstream audit (eg, in Angus Council the internal audit section employs dedicated value for money staff). Conversely, other councils (eg, East Ayrshire, Glasgow City and South Lanarkshire), have dedicated units outwith internal audit that review aspects of internal control in specialist areas such as contract audit. However, the overall number of such staff is low.

Exhibit 6 highlights the variation in the number of internal audit staff employed by councils having broadly similar circumstances.

Exhibit 6: The number of internal audit staff vs. the total number of council employees

There is a high degree of correlation ($r=0.95$) between the number of internal audit staff and the number of council employees, although there is considerable variation in the number of internal audit staff among councils of similar size.



Source: Local audit returns, Joint Staff Watch, (March 2001)

Exhibit 7 shows the qualifications held by internal audit staff across Scotland. Over 60% of internal audit staff either already hold a professional accountancy qualification or are studying towards one:

- 34% hold a Consultative Committee of Accountancy Bodies (CCAB) qualification
- 11% have a relevant auditing qualification, eg, membership of the Institute of Internal Auditors (IIA)
- 18% are actively pursuing an accountancy qualification.

In addition, a small proportion of staff (5%) have other relevant qualifications in areas such as management and information technology. The remaining one third comprises unqualified and clerical staff.

Exhibit 8: The types of work undertaken by internal audit

Internal audit can be involved in a wide variety of tasks.

Strategic and annual planning	Internal control tasks	Core tasks	Non-internal control tasks	Non-audit tasks
Risk assessment	Systems and regularly audit	Best Value reviews	Bank reconciliations	
Strategic planning	Computer audit	Value for money work	Financial accounting duties	
Annual planning	Contract audit	Fraud/corruption enquiries	Risk management	Internal checks
			Consultancy/advice	Internal checks
			Risk management	Internal checks
			enquiries	Internal checks

Source: Local audit returns

What internal audit does

Exhibit 8 summarises the types of work undertaken by internal audit services. They all undertake broadly similar types of internal control work. This involves testing and reviewing the internal controls of key financial and non-financial systems, investigating any frauds or irregularities and, in some councils, specific computer audit and contract audit work.

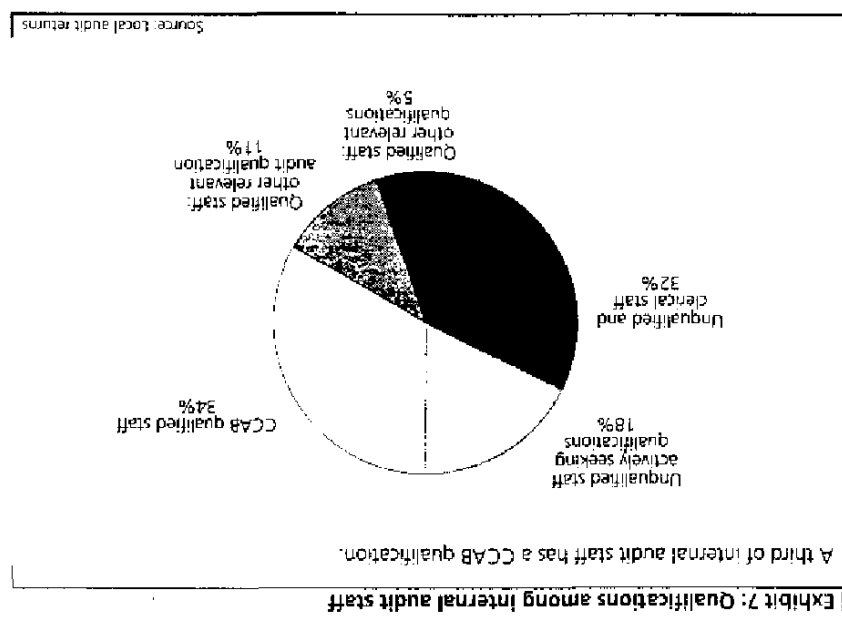


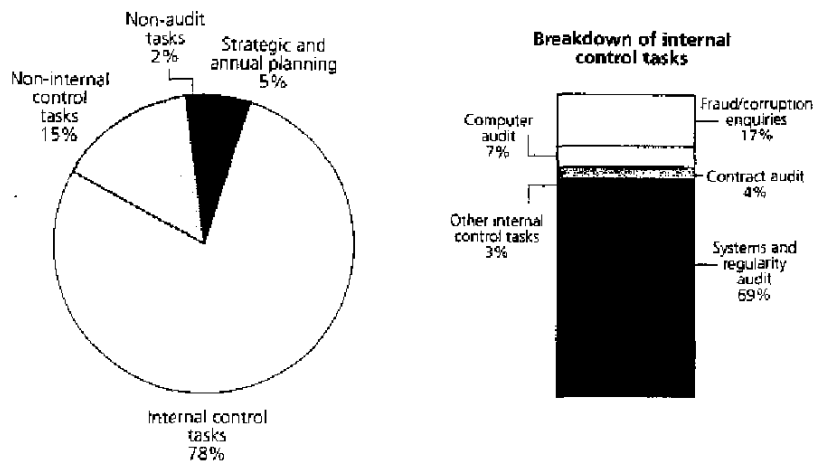
Exhibit 9 shows that internal control tasks account for 78% of total time. This is made up of systems and regularity audit¹² (69% of internal control tasks), fraud¹³ and corruption¹⁴ work (17%), computer audit (7%), contract audit (4%) and other internal control tasks (3%).

Overall, strategic and annual planning of internal audit work takes about 5% of total available time. About 15% of audit time is spent on non-internal control tasks (ie, value for money work, consultancy and advice) – areas of work where internal audit is able to make a valuable contribution, but which may also be undertaken by staff outside internal audit.

A small proportion (2%) of internal audit staff time is spent on non-audit tasks that may compromise the independence of internal audit (eg, preparation of bank reconciliations). This type of work is looked at in more detail in Section 3.

Exhibit 9: Internal audit workload

More than three-quarters of internal audit time is spent on internal control tasks.



Source: Local audit returns

3. Assessment of internal audit performance

Introduction

The assessment framework was developed from the CIPFA Code of Practice. CIPFA updated its Code in October 2000 to reflect the following changes in accepted good practice in recent years:

- work and audit planning should be based on comprehensive risk assessment
- the head of internal audit should provide an overall assessment and produce an annual report containing a view of the internal control system.

External auditors finalised their assessments only three to four months after the publication of the revised Code, so councils may not have had time to put arrangements in place to comply fully with the revised Code in these areas.

Where improvement actions are identified, responsibility for implementing these does not rest solely with chief internal auditors. It will require political leadership from the council and the support of the chief executive, director of finance and service managers.

Councils have received feedback on their assessments and a number of councils have already introduced changes to improve their internal audit service.

Overall assessment of council performance

There is room for improvement in internal audit in all councils, but some perform significantly better than others (Exhibit 10). Councils are grouped according to their assessed level of compliance with the Code and listed in alphabetical order within the four performance bands. The methodology used to derive the performance bands is included at Appendix 2.

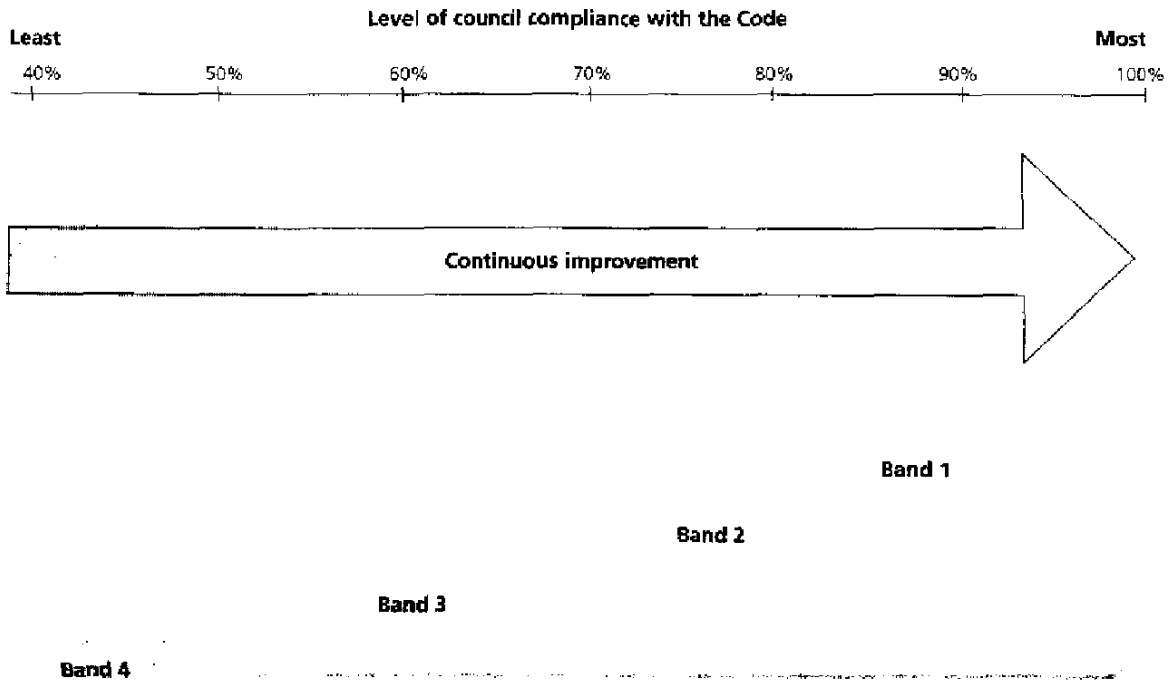
No council complied fully with the Code but four councils – Comhairle nan Eilean Siar, East Ayrshire, East Renfrewshire and West Lothian complied with over 85% of standards in the code.

The councils with the lowest level of compliance with the Code (less than 50%) were Argyll & Bute, East Dunbartonshire, Inverclyde and Shetland.

Twenty councils (those in bands 1 and 2) complied with more than 70% of the Code.

Exhibit 10: Extent of council compliance with the CIPFA Code of Practice

All councils need to improve their compliance with the Code. Councils in bands 3 and 4 have the most to do.



Band 4 39% - 48%	Band 3 54% - 67%	Band 2 72% - 81%	Band 1 85% - 90%
Councils that generally do not comply with the Code	Councils that partially comply with the Code	Councils that generally comply with the Code	Councils that most fully comply with the Code
Argyll & Bute East Dunbartonshire Inverclyde Shetland Islands	Clackmannanshire Falkirk Midlothian North Ayrshire North Lanarkshire Orkney Islands South Ayrshire West Dunbartonshire	Aberdeen City Aberdeenshire Angus Dumfries & Galloway Dundee City East Lothian Edinburgh, City of Fife Glasgow City Highland Moray Perth & Kinross Renfrewshire Scottish Borders South Lanarkshire Stirling	Comhairle nan Eilean Siar East Ayrshire East Renfrewshire West Lothian

Note: Councils are listed in alphabetical order within each performance band.

Source: Audit Scotland

Exhibit 11 shows the average council scores for each of the 15 statements, within each performance band. These results show that councils in:

- **band 1** perform well across the board (averaging over three out of four for each statement)
- **band 2** perform reasonably well for most statements
- **band 3** have substantial room for improvement for most statements
- **band 4** have substantial room for improvement across all statements (averaging less than three for each statement).

The support and commitment of councillors, senior management, particularly the director of finance and chief executive, are key factors in developing an effective internal audit service. Some features most commonly found in the better performing councils, which were usually absent in the poorer performing councils, included:

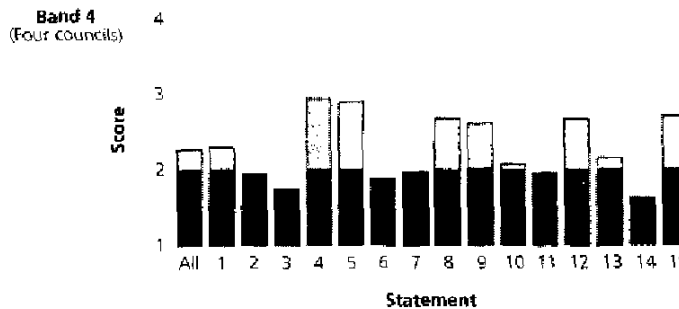
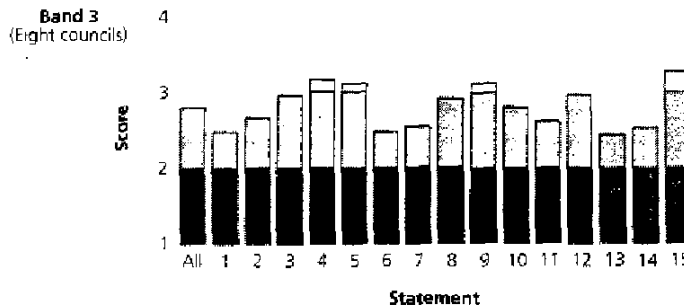
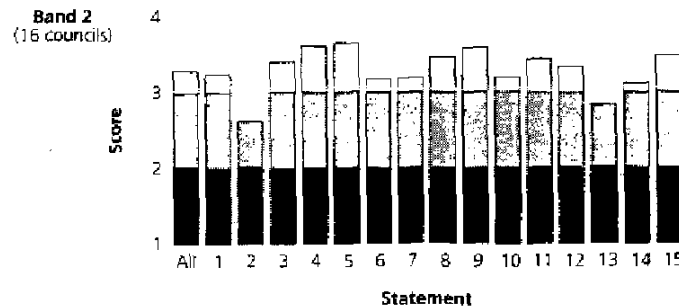
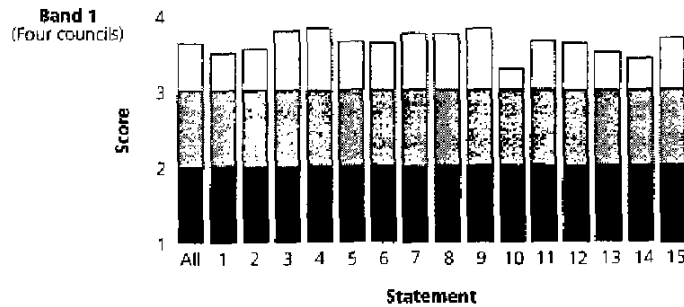
- the presence of an audit committee, or equivalent, to hold internal audit to account and to ensure agreed recommendations are implemented
- the use of comprehensive risk assessment to determine the council's internal control priorities and the work of internal audit
- a richer skill-mix, which may be reflected in above-average unit staff costs, but not necessarily higher total audit costs. There is a significant correlation between the assessment score and the cost per audit day ($r^2 = 0.49$)
- annual reporting by the chief internal auditor giving an overall assessment of internal controls.

The remainder of this section is structured around the six critical success factors. It explores the main strengths found, identifies areas for further improvement and makes recommendations that, in most cases, apply to a number of councils. Specific details of the improvement actions needing to be taken by individual councils can be found in their external auditor's local report and action plans.

Appendix 3 contains a summary of each council's performance for each of the 15 statements. Appendix 4 contains a summary of the assessment scores for each of the 97 tests.

Exhibit 11: Average assessment scores for each statement of good practice for councils in each performance band

The better performing councils tend to perform well across the board, whereas councils in the lowest band of performance tend to perform poorly in most areas.



Key

- | | |
|---|---|
| 1. Internal audit has agreed terms of reference. | 9. Internal audit properly manages, controls and records its work. |
| 2. The respective roles of management and internal audit in maintaining internal control are clearly defined and communicated. | 10. Internal audit is adequately staffed and resourced. |
| 3. Internal audit has a clear role in relation to fraud. | 11. Internal audit staff are suitably trained and developed. |
| 4. Internal audit has sufficient organisational status to be able to undertake its work effectively. | 12. Internal audit has clear reporting arrangements that provide management with an opinion on the adequacy of internal controls. |
| 5. Internal audit is free of operational responsibilities that could compromise its independence. | 13. Internal audit follow-up their recommendations to ensure action is taken. |
| 6. Internal audit bases its work on a comprehensive risk assessment. | 14. Internal audit has a performance management framework that ensures continuous review of its performance. |
| 7. Internal audit operates within a structured planning framework. | 15. The chief internal auditor promotes and maintains professional standards in internal audit. |
| 8. Internal audit has effective relationships with council members, council managers, external audit, inspectorates and other agencies. | |

Critical factor 1 – Setting clear and properly focused objectives

Agreed terms of reference, that are widely communicated across the council, help to ensure that the role and objectives of internal audit are made clear to both internal audit and its clients.

Where properly designed terms of reference are not in place there is a risk that staff may not be clear about their roles and responsibilities and management may not be clear about their role in maintaining effective internal controls.

Communicating internal audit roles and responsibilities

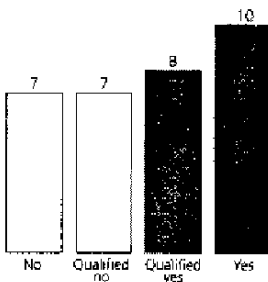
Terms of reference cover areas such as the aims and objectives of internal audit, the scope and remit of their work, and rights of access. Senior management and members should formally agree terms of reference. It is important that the role and objectives of internal audit are understood across the council, and the Code recommends that a charter or mission statement is a good way of achieving this.

In many councils, internal audit terms of reference are set out briefly in council Standing Orders and Financial Regulations rather than as a separate, formally approved, document, as recommended by the Code. Overall, nine councils do not have separate written terms of reference.

The Code sets out the key areas that should be covered by internal audit's terms of reference. However:

- in 13 councils, the terms of reference do not take account of the council's corporate aims and objectives
- in 15 councils, the terms of reference do not make it clear that internal audit should not be seen as a substitute for internal control.

In addition, fourteen internal audit services do not have a charter or mission statement to communicate their roles and responsibilities across the council.



Fourteen internal audit services do not have a charter or mission statement to communicate their roles and responsibilities across the council.

The client manager survey revealed an example of the consequences of this – whilst over 90% of service managers feel they have adequate information on the role of internal audit, over half of them see its main role as detecting fraud, revealing a misconception of the role of internal audit.

Recommendations

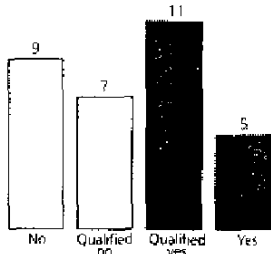
Internal audit should have terms of reference, which comply with the CIPFA Code of Practice for internal audit. They should be formally agreed between senior management, the chief internal auditor and the relevant committee of the council.

The terms of reference should be communicated throughout the council via a mission statement or audit charter.

Clarifying the respective roles of management and internal audit in maintaining internal control

It is management's responsibility to:

- set control objectives (eg, creditors system controls should exist to ensure that valid and timely payments are made)
- establish and maintain an adequate system of internal control (eg, by division of responsibilities) for all major systems.



Sixteen councils did not have defined control objectives for all major systems.

The role of internal audit is to assess the extent to which individual controls contribute to the overall control system and to advise management on setting up, or changing, systems of internal control. However:

- 16 councils did not have defined control objectives for all major systems
- in nine councils, internal audit was not adequately consulted about changes to internal control systems.

Overall, only two councils almost fully complied with the Code. There is significant scope for improvement in 24 councils.

Good practice example: East Ayrshire Council

The council's internal audit section has service level agreements with all departments. These include agreed terms of reference and set out the respective roles of management and internal audit in maintaining internal control.

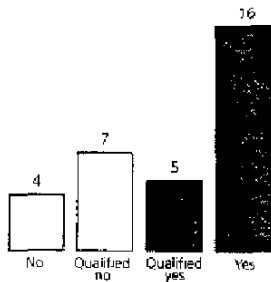
Recommendations

Managers should establish and maintain an adequate system of internal control and should define control objectives for all major systems.

Internal audit should be consulted when systems, and their controls, are being designed or reviewed.

Procedures in relation to fraud

It is important that the council has a strategy for dealing with fraud and corruption together with a fraud response plan, which sets out the procedures to be followed in the event of a suspected fraud. These procedures should be clearly communicated to all staff. Failure to do this can result in fraud remaining undetected or being inadequately investigated.



Eleven councils did not have an adequate anti-fraud and corruption strategy.

Eleven councils did not have an adequate anti-fraud and corruption strategy, and ten did not have a fraud response plan. Ten councils had not updated their fraud strategy since council reorganisation in 1996.

Following the Public Interest Disclosure Act 1998, councils should have a whistle-blowing policy, or confidential reporting procedure for staff. However, 11 councils either did not have a policy in place or had not communicated their policy to staff.

Good practice example: Angus Council

The council has a fraud and corruption strategy, including whistle-blowing policies for officers and for third parties. These, together with fraud and defalcation guidelines included within the financial regulations, clearly state how the council will deal with any disclosures. The policy has been disseminated to all council staff.

Recommendations

All councils should have:

- *an anti-fraud and corruption strategy, which sets out management's responsibilities for the prevention and detection of fraud and other illegal acts and includes a framework for involving internal audit in fraud investigation and prosecution*
- *a fraud response plan, setting out the roles and responsibilities of staff, management and internal audit in relation to fraud.*

The roles of staff, management and internal audit in dealing with fraud should be clearly defined and communicated.

Following the Public Interest Disclosure Act 1998, councils should have a whistle-blowing policy, or confidential reporting procedure for staff.

Critical factor 2 – Maintaining internal audit independence

Internal audit should be seen to be independent in exercising judgement, reporting opinion and presenting recommendations. To achieve this, internal audit needs to be free of operational tasks and to have sufficient organisational status to enable it to properly perform its duties. In CIPFA's view the chief internal auditor should not report at a lower organisational level than the responsible finance officer.

A lack of independence will compromise the work of internal audit and may lead to audit findings not being fully reported or implemented. The position of internal audit within the council's structure can affect its authority and independence.

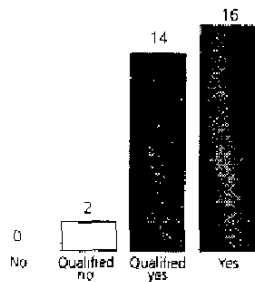
Line-management arrangements for chief internal auditors

Chief internal auditors must be able to report their findings in their own name without fear or favour, and their line managers should not influence their reports. Although it is for each council to decide where the chief internal auditor fits into its management structure, the associated status must ensure that internal audit can function independently. The CIPFA statement on the role of the finance director in local government states:

"the responsibility for ensuring effective internal audit should be that of a senior director who is at the heart of the corporate management of the authority. This widely held professional view means, in practice, that internal audit should report on a line or contract management basis to either the head of the paid service (the chief executive) or finance director."

This statement is also reflected in the CIPFA Code of Practice for Internal Audit in Local Government.

One way of measuring a chief internal auditor's status is to examine the number of managers between the chief internal auditor and the council's chief executive (ie, the number of management tiers). Exhibit 12 shows that 15 chief internal auditors report to a level below the director of finance (or equivalent) – arrangements that do not comply with the Code.



Almost all chief internal auditors consider that they have direct access to Members, the chief executive and the director of finance

Where the chief internal auditor's line manager is lower than the director of finance (or equivalent), there is a risk that the status and independence of the chief internal auditor may be compromised.

These problems can be alleviated if chief internal auditors have direct access to council Members, the chief executive and the director of finance. Importantly, almost all chief internal auditors consider that they have such rights of access.

Exhibit 12: Line-management arrangements for chief internal auditors

Fifteen councils do not comply with the CIPFA Code.

Chief internal auditor's line manager	Management tier	Number of councils
Chief executive	0	2
Director of finance	1	12
Director of corporate services (or equivalent)	1	3
Head of accounting (or equivalent)	2	13
Finance manager (or equivalent)	3	2

Source: Local audit returns

Recommendations

Councils should review:

- *the line-management arrangements of the chief internal auditor to ensure that they reinforce his/her independence and status within the council*
- *the reporting lines of internal audit to ensure they reinforce the independence of internal audit within the council. For example, the reporting lines to the chief executive and relevant member committees, should be both visible and active.*

Operational independence

Internal auditors should not have operational responsibilities outside audit. This means that, if internal audit were not involved, the operational process would continue unaffected. Overall, the time spent on such tasks represents only 2% of internal audit work across all councils, varying among councils from 0-5% of audit time. Five internal audit services were assessed to be involved in tasks that could affect their independence.

Recommendation

Internal audit involvement in non-audit work should be kept to an absolute minimum. Where it is unavoidable, the chief internal auditor should take steps to ensure internal audit's independence is not compromised

Critical factor 3 – Planning and controlling the work of internal audit

A structured framework of strategic, annual and individual project plans helps internal audit to consult with members and senior managers and ensure that the work programme is properly focused on the council's needs. Internal audit resources need to be prioritised to areas of greatest risk to ensure that its resources are used effectively.

Good working relationships with external auditors and inspectorates help develop an integrated approach to audit, enabling the overall burden of audit and inspection to be minimised.

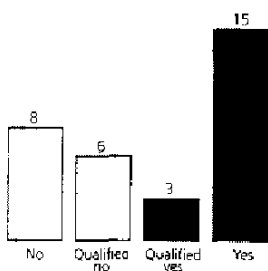
Internal audit needs good working papers to be able to present findings and make recommendations that can be supported by robust evidence.

Risk assessment

A structured risk management methodology is required to properly prioritise and plan internal audit work. It should cover both financial and operational systems and should be regularly reviewed, particularly in periods of rapid organisational change.

However, the study found that:

- 14 internal audit services did not use a formal process to assess risks
- 12 did not regularly review their risk assessments
- a quarter of the service managers who responded to the client survey were not consulted on the key risks in their area
- over 20% of chief executives felt that internal audit plans were not based on an analysis of the risks facing the council
- overall, 12 councils almost fully complied with the Code. However, there is significant scope for improvement in 16 councils.

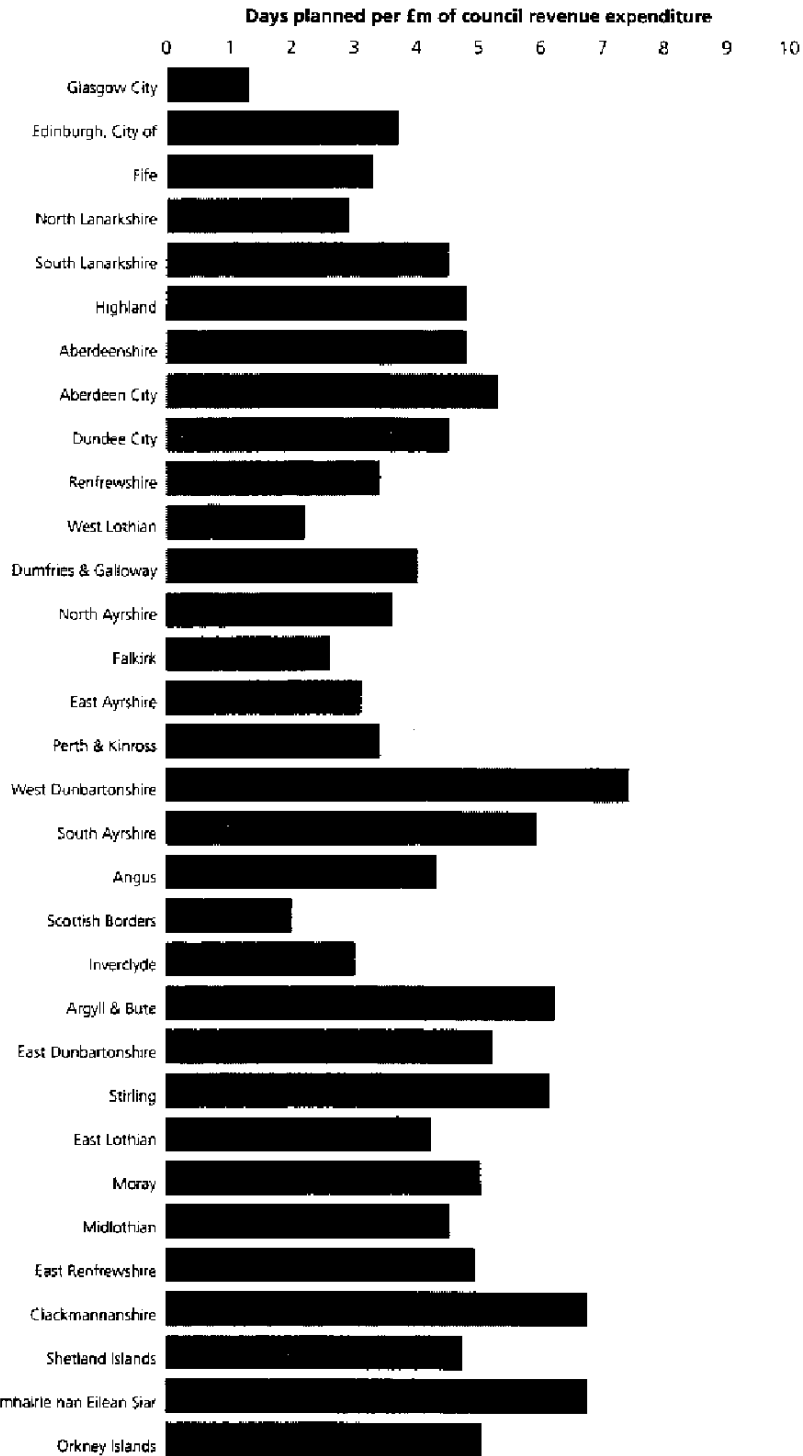


Fourteen internal audit services did not use a formal process to assess risks.

Exhibit 13 shows the planned budgets for systems and regularity audit. The data suggests economies of scale in the larger councils. However, the variation in the time spent by internal audit in some comparable councils may be a consequence of them not properly identifying the level of input required.

Exhibit 13: Days planned for systems and regularity audit, per £m of total council revenue expenditure

There are significant variations between broadly comparable councils.



Note: Councils are listed in order of total council revenue expenditure.

Source: Local audit returns

Good practice example: Perth and Kinross Council

Internal audit has carried out a formal risk assessment of all of the council's services. It is based on income, expenditure and value of stores, weighted by three risk factors (financial, business, and political).

Risk scores are allocated and audit areas are prioritised as very high, high, medium, and low risk. Internal audit work is prioritised according to the scores obtained. The risk assessment drives a three-year strategic plan, which in turn drives the annual audit plan. All very high- and high-risk areas are covered each year.

Recommendations

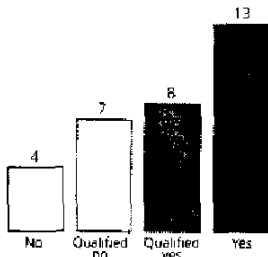
The chief internal auditor should adopt a formal risk assessment methodology to identify all the systems that require priority review by internal audit. The council's corporate risk assessment process and the knowledge and awareness of service managers, external audit and internal audit should inform the process.

Internal audit resources should be allocated to priority internal control areas, based on robust risk assessment.

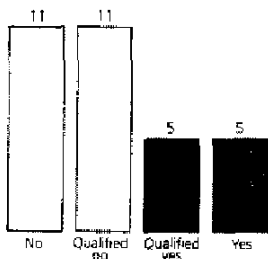
Audit planning

Internal audit requires a structured planning framework of strategic, annual and project plans to ensure that all council systems are kept under review.

- **The strategic plan**, based on the risk assessment, should link to the council's corporate aims and objectives and determine a schedule of systems to be reviewed (with the frequency of review having regard to their assessed risk) and identify the resources required to undertake this work.
- **The annual plan** should be derived from the strategic plan and should detail the work to be undertaken in any year. To ensure risks are properly managed, annual plans should be sufficiently flexible (and include a contingency) to ensure that all priority work is completed within the scheduled time.
- **Operational plans** should be prepared for each project in consultation with client managers, and set out the scope and objectives of the work, time-scales and reporting arrangements.



Eleven internal audit strategic plans were not informed by comprehensive risk assessment.



Twenty-two strategic plans did not set out the resources needed to meet the internal audit needs of the council.

External auditors' assessments of internal audit planning frameworks showed that:

- strategic plans were not informed by comprehensive risk assessment (11 internal audit services)
- strategic plans did not set out the resources needed to meet the internal audit needs of the council, resulting in a failure to identify any mismatch between the resources required and the resources available (22)
- strategic plans did not link back to the council's corporate aims and objectives (16)
- annual plans did not have sufficient contingency provision to accommodate work arising during the audit year (10)
- project plans were not prepared for each audit assignment (11)
- over a quarter of service managers surveyed felt that they did not have sufficient input into the planning of internal audit work

- 19% of chief executives and 22% of directors of finance felt that internal audit did not always complete their priority work within planned timescales
- overall, six councils almost fully complied with the Code. However, there is significant scope for improvement in 17 councils.

Comparison of internal audit's planned and actual work revealed significant under/overspends on particular categories of work. Across all councils, a 14% under-provision in the contingency for investigating fraud and corruption contributed to an 11% shortfall in systems audit work. Exhibit 14 shows the areas where actual time spent was more than 10% outwith internal audit's planned budget estimates. Significantly, internal audit time on systems and internal control was more than 10% under-budget in 14 councils, and 20% of councils were more than 10% under-budget overall.

Exhibit 14: Comparison of planned and actual work 2000/2001

Planned systems and internal control work are not always completed within the period of the plan.

Types of work	Number of councils more than 10% over budget	Number of councils more than 10% under budget
Strategic and annual planning	8	5
Systems and internal control (excluding fraud and corruption)	3	14
Fraud and corruption	14	10
VFM/Best Value etc	7	12
Client non-audit work	6	9
Total	2	6

Source: Local audit returns

Recommendations

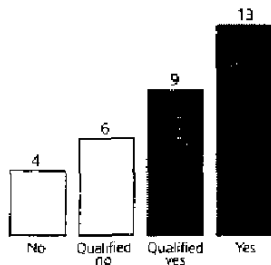
The chief internal auditor should prepare:

- *strategic and annual plans in consultation with senior managers across the council and update these to reflect changes in priorities of the council*
- *a strategic plan setting out the depth, breadth, frequency and timing of each audit*
- *an annual plan setting out the work to be undertaken each year, including sufficient contingency to ensure that all priority work is completed within the year*
- *operational plans for each audit project, setting out the scope and objectives of the work, the resources allocated and agreed target dates for fieldwork and reporting.*

Working relationships

To undertake its work effectively, internal audit should foster constructive working relationships with management, external auditors, inspectorates, any other review agencies, and where one exists, with the audit committee or equivalent mechanism.

Overall, internal audit performed well in this area. However, in ten councils, internal audit did not maintain open channels of communication with Members.



Ten internal audit services did not maintain open channels of communication with Members.

Managing, controlling and recording work

Sound management of the internal audit section and of individual assignments ensures that internal audit objectives are achieved and work is performed effectively. Twenty-eight councils performed well in this area.

Audit guides are a useful tool in assisting staff to follow standardised procedures to consistent quality standards. The Scottish Local Government Chief Internal Auditors' Group has produced a standard audit guide available for use by all councils in Scotland. The internal audit section in Angus Council has further developed this guide.

Good practice example: Angus Council

All the procedures for the conduct of the internal audit section are set out in the audit manual, which is part of the Audit, VFM & Risk Services intranet as an HTML document. All standard forms, memoranda and programmes are embedded in the document. Staff access the relevant section in the manual to obtain the required information.

Critical factor 4 – Resourcing the internal audit work programme

Internal audit services need to be properly resourced to complete their agreed work programme, efficiently, effectively and on time. The internal control needs of the council should drive the need for audit resources. Otherwise, there is a risk that the internal control needs of the council will not be met (eg, there may be a skills deficit in a high-risk area, eg, IT, which may not be adequately reviewed).

Internal audit work requires a balance of skills, experience and qualifications. Staff should be supported with needs-based training to enable them to develop the skills required to meet both current and future work challenges.

An absence of needs-based training and personal development programmes can lead to limited staff development, difficulties in recruiting and retaining good staff, and a lack of skills in the use of modern audit techniques.

Staffing resources

Internal audit needs to have the appropriate number and quality of staff to do the required work, and manage these resources efficiently and effectively. IPF data suggests that unitary councils in England and Wales spend 40% more on internal audit than councils in Scotland. However, it is difficult to draw a firm conclusion from this comparison as the variation may be due to differences in the types of work undertaken by internal audit both north and south of the border. Importantly, it is for each council to decide the level of internal audit resources to meet its internal control needs, based on a comprehensive assessment of the risks facing the council.

External auditors assessed 12 internal audit services as having inadequate resources to enable them to meet their work objectives efficiently and effectively, based on interviews with chief internal auditors, and the views of chief executives and directors of finance. The main shortfalls were insufficient qualified staff and a lack of computer audit specialists. Four councils had not reviewed their internal audit staffing requirements since council reorganisation.

Recruitment of internal audit staff is a problem for many councils. At the time of the study, there were 35 vacant internal audit posts across Scottish councils, representing 12% of internal audit's overall establishment. Eight of the 13 chief internal auditors who had recently advertised posts reported particular difficulties in filling vacancies for qualified auditors and IT audit staff. Here, councils have to compete with the private sector and other public sector organisations in a market where qualified auditors, particularly IT auditors, are in short supply.

Where particular skills gaps arise (eg, for computer and contract audit staff), it should be possible to access these skills, on a temporary basis, by 'buying in' specialist staff. However, this option is only available to chief internal auditors in 16 councils.

Where councils are unable to attract suitably experienced staff, more fundamental longer-term options should be considered, for example:

- entering into consortia arrangements with other councils or other public sector organisations (eg, the NHS)
- entering into partnership arrangements with the private sector
- contracting out an element, or all, of the service to the private sector.

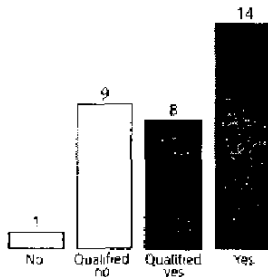
Recommendations

Councils should determine the staffing and skill mix required by internal audit based on a comprehensive risk assessment. The strategic plan should identify the council's internal audit requirements.

Councils should conduct an option appraisal for procuring internal audit services and challenge whether:

- the council's internal audit needs are being met
- internal audit has the relevant skills and experience to meet the current and changing needs of the organisation
- the resources being spent on internal audit are providing a Best Value service
- the service could be improved by entering into consortia arrangements with other councils, entering into partnership arrangements with the private sector or contracting all, or elements, of the service to the private sector.

Where additional specialist skills such as IT are required, the chief internal auditor should consider consortium arrangements, partnerships or 'buying in' contract staff to fulfil short-term IT audit requirements.



Ten chief internal auditors did not co-ordinate and review the training and development requirements of their staff.

Staff training and development

Training should be tailored to the needs of individual auditors to help them meet their current responsibilities and the challenges they are likely to face, for example, the need for improved IT skills.

However, in ten councils, the chief internal auditor did not co-ordinate and review the training and development requirements of their staff. In 13 councils, there was no induction programme for new staff.

Good practice example: Glasgow City Council

The council's internal audit section has two experienced computer auditors, trained in data protection legislation and other computer-aided audit techniques (CAAT). These skills have enabled the council to use data matching techniques to combat fraud.

Recommendations

The chief internal auditor should co-ordinate, and keep under review, the training requirements of internal auditors and arrange for personal training records to be maintained for each member of his/her staff.

Induction programmes should be arranged for all new internal audit staff.

Critical factor 5 – Reporting and follow-up arrangements

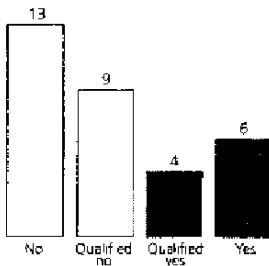
It is internal audit's responsibility to submit timely reports to management, identifying the findings from its work and making recommendations for improvement.

Systematic follow-up procedures ensure that management has implemented internal audit recommendations within agreed time-scales, or has understood and assumed the risk resulting from not taking action.

Low priority given to follow-up work is counter-productive in the long term, as the effect of implementation of recommendations cannot be assured. This can undermine the whole audit process.

Reporting arrangements

Over three-quarters of councils had clear procedures for producing and clearing internal audit reports. In addition, over 90% of service managers surveyed felt that internal audit recommendations were concise, clear and constructive. Almost all agreed with internal audit recommendations. Service managers were generally satisfied with the time taken by internal audit to submit its draft and final reports.



Twenty-two chief internal auditors did not produce an annual report providing an overall view on the soundness of the council's internal control systems

It is important that the council has a clear understanding of the issues raised by internal audit during the year. However, in more than two-thirds of councils, the chief internal auditor did not produce an annual report providing an overall view on the soundness of the council's internal control systems.

The CIPFA/SOLACE report on corporate governance calls upon councils to: *"publish on a timely basis, within an annual report, an objective, balanced and understandable statement and assessment of the authority's risk management and internal control mechanisms and their effectiveness in practice."*

This development, taken together with the move by other parts of the public sector towards introducing internal (financial) control statements, makes it likely that, in due course, there will be a requirement on councils to produce an annual report, and include in their accounts a statement on the adequacy of their internal control arrangements.

Good practice example: East Renfrewshire Council

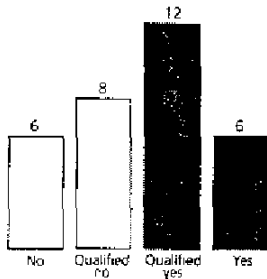
Each year, since 1998/99, the chief auditor has produced an annual assurance statement on internal control. This statement is approved by the audit committee and ratified by the council.

Recommendation

Internal audit should produce an annual report, which sets out its opinion on the adequacy of the council's internal control arrangements, based on the work undertaken that year.

Follow-up arrangements

It is the responsibility of management to implement agreed recommendations or accept the risk resulting from not taking action. Internal audit should have systematic follow-up procedures in place to monitor the implementation of its recommendations. The results of follow-up work should be used by internal audit to update its risk assessment and plan its future work.



Fourteen services did not report to the corporate management team instances where service managers failed to implement remedial action plans, as agreed.

Auditors assessed that many councils could improve their follow-up arrangements:

- 18 internal audit services did not use the results of follow-up work to update their risk assessment
- 14 did not report to the corporate management team instances where service managers failed to implement remedial action plans, as agreed
- ten did not use the results of follow-up work to update their audit plans
- overall, only two councils almost fully complied with the Code. There is significant scope for improvement in 19 councils.

Recommendations

The chief internal auditor should ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations, and that management has understood and accepted the risk of not taking action.

The chief internal auditor should report failure to implement agreed action plans to the corporate management team and audit committee.

Internal audit should use the results of follow-up work to update its risk assessment and its planning of future internal audit work.

Critical factor 6 – Holding internal audit to account for its performance and the role of audit committees

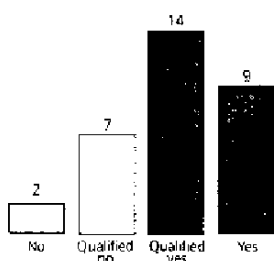
The effectiveness of internal audit is enhanced if it operates within a performance management framework that embraces professional standards, performance review and continuous improvement.

The adoption of audit committee principles helps to raise the profile and effectiveness of audit by establishing scrutiny arrangements that hold both internal audit and service managers to account.

Where effective performance review processes are not in place, there is a risk that the council may not be getting appropriate assurance on the level of internal controls in operation.

Performance management

The chief internal auditor should promote and maintain quality standards within the section. Performance measures and indicators can be used to demonstrate whether internal audit is achieving its planned objectives and delivering Best Value. Independent accreditation (eg, ISO 9000 or 9002) can assist in ensuring that the appropriate standards are in place. Five councils have such accreditation.



There was scope for nine chief internal auditors to further develop their use of performance indicators.

The standards of professional and ethical behaviour of internal audit staff are high across all councils. Many chief internal auditors continuously maintain and develop the performance of their services. However, there was scope for nine chief internal auditors to further develop their use of performance indicators to measure the performance of their service.

Recommendation

The chief internal auditor should establish a set of performance measures and local indicators, relevant to the achievement of audit objectives within a Best Value context.

Audit committees

The Accounts Commission regards the adoption and implementation of audit committee principles as an important step in raising the standards of corporate governance in local government. To be fully effective, an audit committee or equivalent should:

- be established at a high level, constituted as a separate committee or included within the remit of a relevant committee with other functions
- ensure broad terms of reference, permitting it to investigate matters of financial management and economy, efficiency and effectiveness, with the necessary resources to do so and with full access to information
- have direct (two-way) access between the chief internal auditor and the external auditor.

The number of councils having an audit committee, or equivalent, is increasing. Sixteen councils currently have these arrangements in place. Of the 16 councils currently without audit committees (or equivalent), eight chief internal auditors felt that an audit committee would encourage greater accountability and scrutiny of council performance. The client survey indicated that a majority of service managers would prefer internal audit to be accountable to an independent joint group of officers and members.

The study team discussed the role of audit committees with committee members in three councils that have long-established audit/scrutiny committees (Aberdeen, Dundee, and Fife). All members spoke very positively about the impact that their audit committees were having and, in particular, they felt the adoption of audit committee principles continued to help improve corporate governance.

The main impact of the audit committee in these councils is felt to be:

- a sharper focus on corporate strategic risks
- raised officer and member awareness of the importance of internal controls
- better prioritisation and use of internal audit resources
- corporate support for internal audit recommendations
- a faster response by service departments to internal audit reports and recommendations.

However, they highlighted a number of problems and potential solutions (Exhibit 15).

Exhibit 15: Common issues experienced by audit committee members

There are a number of issues that could usefully be tackled by local government.

Issues	Potential solutions
Concerns about not wanting to 'stand on the toes' of other committees.	Ensure that the audit committee (or equivalent) has clear terms of reference.
Not feeling competent to challenge the content and balance of internal audit work, including work plans and reports submitted – leading to a lack of effective challenge.	Improved training for audit committee members and being able to call on specialist advice.
Not receiving an annual report on the work programme and the audit recommendations implemented.	Require internal audit to produce an annual overview report.
A lack of training for audit committee members – it took new members a long time to 'find their feet'.	Development of a handbook and training programme for members, giving guidance on the role and operation of audit committees. Potential exists to develop a forum, similar to the Health Service, enabling members to share experiences and learn from best practice in tackling common issues.

Source: Interviews with audit committee members

Recommendations

Councils should make arrangements to introduce an audit committee or equivalent mechanism where they have not already done so.

Councils should arrange for comprehensive training for all new audit committee members.

Local government should develop a handbook for audit committee members, and explore the potential to develop a forum for audit committee members to share best practice.

4. Securing Best Value internal audit services

Opportunities for the future

This study has identified a range of opportunities that exist to raise the standard of internal audit, by aiming for full compliance with the Code.

All internal audit services need to embrace a culture of continuous improvement, adopting proven best practice from other public and private sector organisations. Three case studies reflecting these aims are included at the end of this section. Through improving performance and delivering added value, internal audit services will be able to demonstrate their capacity to take on new responsibilities.

Best Value and other initiatives are fundamentally changing the way councils work and this presents opportunities as well as challenges for internal audit services. These include:

- **Introduction of audit committees and revised council structures.** In response to the McIntosh report, all councils are expected to review their corporate governance and management arrangements. This is having an impact on the line management of internal audit and its reporting lines to senior managers and councillors. Sixteen councils now have audit (or scrutiny) committees and this provides the opportunity for these councils to support and challenge both internal and external audit's contribution to achieving sound internal controls and performance stewardship. Under these new arrangements, internal audit has the opportunity to demonstrate excellent performance and to be held accountable for its work.
- **The changing role of internal audit.** Internal audit is emerging from its traditional 'policing' role to developing a more proactive corporate role (Exhibit 16). In a growing number of councils, internal audit is being given an increasingly important role in supporting corporate governance and performance. The client survey identified that many chief executives would like to see the role of internal audit being further developed and providing added value by:
 - identifying performance improvements through Best Value, value for money, and performance management and planning audits
 - undertaking more 'cross-cutting' type work
 - challenging the status quo and supporting continuous improvement in the council.

The changing role of internal audit demands broader competencies than those of traditional audit services. The former emphasis on accounting and auditing qualifications now needs to be balanced by a consideration of other skills that may be required to meet the wider demands on audit.

Exhibit 16: The changing role of internal audit

The role of internal audit is changing from a mostly financial to a more corporate role.

Traditional role	Emerging role
Finance based	Corporate role
Policing role	Pro-active partnership role
Self-sufficient	Use of specialists
Functional focus	Risk and process focus
Tangible asset focus	Intangible asset awareness eg, reputation, accountability

Source: Audit Scotland

- **Expansion in the use of ICT.** The growing use of electronic commerce and electronic signatures is placing greater demands on councils for expert skills in computer audit. Council chief executives recognised this in their survey responses.
- **Getting improved value from council resources.** Internal audit is not immune from the drive to obtain Best Value from council resources. There is an opportunity for internal audit to develop new and improved ways of working to enable it to manage its resources more effectively, for example by:
 - adopting a risk management strategy, ensuring that its work programme is focused on the council's priority risk areas
 - introducing smarter ways of working, by training and developing staff in the use of modern audit techniques (eg, the use of internal control self-assessment methodologies⁹, moves to 'paperless audit', increased use of computer aided audit techniques)
 - developing a stronger, effective partnership with external auditors and other review agencies, which will help to reduce the overall burden (both time and cost) of the audit and inspection processes on councils.
- **The likely introduction of internal (financial) control statements (ICS).** In the private sector and other parts of the public sector (eg, government departments, further education and health), ICS have been successfully introduced as a means of providing assurance to shareholders or stakeholders on the adequacy of internal controls within the organisation.

The requirement to have the senior manager of the organisation certify the adequacy of internal controls provides a sharp focus on management's need to establish effective arrangements for internal control, and internal audit.

CIPFA and the Local Authority (Scotland) Accounts Advisory Committee (the CIPFA LASAAC Joint Committee) are actively considering the introduction of ICS to local government accounts. This development will be a key driver in encouraging councils to establish effective internal audit service provision. This is only the first step towards full Turnbull compliance, which is seeking to extend the statement in respect of financial control to all controls within the organisation, including financial, operational, compliance and the management of risk.

Conclusion – challenging councils to improve

All councils need sound internal control systems and strong corporate governance arrangements. An effective Best Value internal audit service can be a major contributor in achieving this. However, this study has identified that many councils need to improve their internal audit arrangements.

Understanding current performance is a key factor in driving continuous improvement. This report, along with the local external audit reports, provides each council with a robust assessment of their levels of compliance with the CIPFA Code. A sound baseline now exists to measure improvements made by individual councils over time.

All councils have individual reports from their external auditor, assessing their level of compliance with the CIPFA Code of Practice. These show that some have a lot to do in raising their standards to those reflected in the Code. Each council is expected to implement the agreed recommendations contained in their external auditor's report.

Where the room for improvement is significant (particularly those councils falling within performance band 4), substantial progress is needed in a short space of time. There is a strong case for these councils testing current provision against what the market might provide. This would involve looking at options that would provide a high-quality service that ensures that the councils' control objectives are met, at acceptable cost. These options would include:

- buying in specialist skills, for example, computer audit expertise
- entering into consortia arrangements with other councils
- partnership arrangements with the private sector
- externalising service provision.

Irrespective of who provides the service, the critical factors that underpin a Best Value internal audit service remain the same. All councils should be looking to develop sound internal control arrangements where:

- **councillors** are demonstrably committed to supporting the need for a sound internal control environment, including internal audit
- **senior managers** are demonstrably committed to maintaining effective internal controls and implementing sound internal audit arrangements
- **chief internal auditors** demonstrably provide an excellent internal audit service.

Exhibit 17 provides a checklist that highlights the key messages for an effective internal audit service. It should help councillors, chief executives, senior managers and chief internal auditors to ensure that their council has these arrangements in place. External auditors will be monitoring progress.

Exhibit 17: Achieving a Best Value internal audit service – a checklist for councillors, chief executives, senior managers and chief internal auditors

Critical factors	Key enabling factors
1. Setting clear and properly focused objectives for internal audit	<ul style="list-style-type: none"> ■ Is the council committed to establishing an effective internal audit service? ■ Does internal audit have clear terms of reference agreed by senior management and communicated these across the council? ■ Does internal audit have a good understanding of the risks facing the council, developed in consultation with all service managers?
2. Ensuring that internal audit is independent	<ul style="list-style-type: none"> ■ Does internal audit have direct access to councillors, the chief executive and the director of finance? ■ Does internal audit have (and is it seen to have) independence from operational procedures? ■ Does internal audit have the right of final edit in submitting reports?
3. Making sure the work of internal audit is properly planned	<ul style="list-style-type: none"> ■ Does internal audit's planned work support the corporate objectives of the council? ■ Does internal audit ensure that all planned work reflects the results from its systematic assessment of the council's risks? ■ Does internal audit plan a sufficient contingency to accommodate unforeseen work, enabling it to complete its planned work within time-scale?
4. Making sure internal audit is adequately resourced	<ul style="list-style-type: none"> ■ Does senior management ensure that internal audit has the resources required to meet the internal control needs of the council? ■ Does the council recruit and train suitably skilled internal audit staff? ■ Has senior management given authority to the chief internal auditor to access specialist skills to tackle complex areas?
5. Ensuring that internal audit findings are reported and followed up	<ul style="list-style-type: none"> ■ Does internal audit report weaknesses in internal control for action by management? ■ Does senior management systematically encourage all managers to implement report recommendations within agreed time-scales? ■ Does internal audit report any failure by management to implement agreed recommendations? ■ Does internal audit provide an annual report, providing an overall view on the soundness of the council's internal control systems?
6. Ensuring that internal audit is held to account for its performance	<ul style="list-style-type: none"> ■ Does the council have an audit committee or equivalent to: <ul style="list-style-type: none"> – approve internal audit work plans? – review internal audit's output and performance and ensure that it completes its programme of work? – act as a conduit for receiving audit reports and call service managers to account? ■ Does internal audit prepare annual performance plans, setting out its achievements and targets? ■ Does internal audit maintain an effective performance management framework to continuously review and improve its performance?

Case study 1: East Renfrewshire Council

Contact: Asif Abdul Haseeb, Chief Auditor (CA), East Renfrewshire Council, (T. 0141 577 3000).

East Renfrewshire Council has been assessed as having one of the best internal audit services in Scotland. This case study provides an insight as to how the in-house service achieves this.

The council identified the following main characteristics that underpin their valued service:

- a clear long-term vision for internal audit
- strong leadership by the chief auditor, having effective management and interpersonal skills to turn the vision into reality
- effective support from elected members, the director of finance and chief executive
- a strong and effective audit committee
- appointing the right people and giving them support and the tools to do the job.

Good practice is present in all of the areas assessed and the following provides a flavour of these:

- **Setting clear and properly focused objectives.** The service has clear terms of reference approved by the audit committee and ratified by the council. Service level agreements apply with each department. The council has a fraud and corruption strategy, incorporating 'whistle-blowing' procedures.
- **Maintaining independence.** The CA reports directly to the director of finance and has regular access to elected members through the audit committee. The CA issues reports in his own name without editing. The section does not carry out any non-audit work.
- **Planning and control.** A rolling four-year strategic plan has been in place since 1996, covering all council activities – financial and non-financial systems. A 10% contingency is included in the annual plan for unplanned reactive work. All work in the annual plan is completed each year. An excellent working relationship exists between internal and external audit. This has resulted in a joint approach to audit planning with minimal duplication of work. An audit manual has been in place since February 1998.
- **Resourcing the work programme.** The section has five staff. Four are financially qualified and the fifth is studying for an audit qualification. One member of staff has a computer audit qualification. Each staff member reports to the CA and completes audits working to his/her own initiative. Secondments to other organisations are encouraged to help develop staff and maintain their current high level of morale. This has included a two-way secondment with Audit Scotland and secondments to the private sector and the NHS.
- **Reporting and follow-up.** Over 90% of reports are issued within five working days of staff completing the work. Client surveys indicate that reports are comprehensive and very well received. Each year, since 1998/99, the CA has produced an annual assurance statement on internal

control, which is approved by the audit committee and ratified by the council. Each annual audit plan makes provision to follow-up previous years' action plans for satisfactory implementation, as appropriate.

- **Holding internal audit to account.** The audit committee is chaired by the Leader of the Opposition, and reports to full council. The Committee approves the annual audit plan. The CA attends all meetings and provides the committee with quarterly progress reports and an annual overview report.

Case study 2: North Yorkshire Audit Partnership

Contact: James Ingham, Audit Manager, North Yorkshire Audit Partnership, Ryedale DC, Ryedale House, Malton, North Yorkshire (T. 01723 232364).

The North Yorkshire Audit Partnership was established on 1 February 1999 to provide internal audit services to three local authority partners: Ryedale District Council, Scarborough Borough Council, and Selby District Council.

The main objectives for setting up the Partnership were to provide economies of scale, with an increase in the quality of services through greater specialisation and sharing of skills across the different local authority boundaries. Partners also had specific requirements for the Partnership including:

- reducing recruitment difficulties
- improved access to specialist staff
- to explore partnerships in other service areas.

The Partnership was created using a joint committee whose responsibility is the overall strategy and management of the Partnership. There are two members from each authority on the Management Board with equal voting rights. The Partnership prepares annual trading accounts that are approved by the Board, and any balances are also shared equally.

Scarborough Council's chief internal auditor was appointed audit manager with responsibility for delivering an effective internal audit service. He reports on that to the client officer in each of the partner councils, and to the Board in respect of the Partnership itself.

Separate audit plans are prepared for each council, with each council being provided an agreed number of days to meet their audit needs. There is sufficient flexibility in the arrangements to allow for changes in the plans and therefore the number of audit days being provided to each council, if required.

The performance of the Partnership is being evaluated. The measures being employed include:

- feedback from audit clients
- completion of audit plans, by both number of audits and time
- feedback from the external auditor
- internal performance monitoring, including:
 - individual and group charged time percentages against targets
 - time taken for audits against planned time.

Overall the Partnership is performing well. The main successes achieved to date include:

- an increase in the number and range of audits undertaken
- a reduction in planned times for some of the audits without compromising the content of the audit through improved efficiency
- an increase in the percentage of the audit plan completed
- increased and extensive use of data manipulation software
- development of individual's skills and specialisms
- cross-fertilisation of ideas and audit experience, and not least
- a financial saving to the partner councils.

Case study 3: Comhairle nan Eilean Siar

Contact: Paul Macaskill, Senior Auditor, Comhairle nan Eilean Siar,
(T. 01851 703773).

In 1992, Comhairle nan Eilean Siar was severely criticised by the Controller of Audit for having poor financial controls and treasury management practices. Following his appointment, the director of finance gave priority to establishing effective internal audit. To achieve rapid improvement in internal audit, it was decided to put the professional, technical and managerial aspects of internal audit to open tender, and the contract was awarded to a private firm of accountants.

Internal audit now consists of three in-house members of staff, headed by a qualified accountant. The contracted firm provides quality assurance support.

Features of the improved service include:

- **Independent audit arrangements.** The senior auditor reports to the director of finance with simultaneous reporting to the chief executive. Independent reporting by the senior auditor to the chief executive is considered to be essential.
- **Members actively consider audit reports.** A Member working party receives all audit reports and approves audit recommendations.
- **Greater reassurance on internal controls.** Effective internal audit gives Members and officers considerable reassurance on the reliability and integrity of the council's financial affairs.
- **Greater compliance with Auditing Standards.** This has provided more robust compliance and follow-up mechanisms.
- **More effective use of audit resources.** Audit resources are dedicated to audit and are applied based on risk, materiality and effectiveness of internal controls.
- **Improved training and skills for in-house staff.** The Partnership supports the development of in-house staff.

A recent Best Value review of the audit service identified other pointers to good practice:

- involve all senior managers in risk identification and analysis so that corporate ownership of the strategic and operational audit plans takes place
- train managers in making use of internal audit services and explain the benefits that can be achieved for the organisation
- continuously and effectively develop internal audit staff
- improve audit's positive perception by the rest of the council by identifying good practice to support improvement action recommendations
- minimise duplication of effort between internal audit, external audit and inspectorate functions, to allow resources to be deployed efficiently and effectively.

Comhairle nan Eilean Siar's experience has shown that a fully resourced and supported internal audit service can promote performance, stewardship and accountability within the council and shape how the council operates and delivers its services.

Appendix 1. Membership of the study advisory group

Robin Bennie, Director of Finance, Comhairle nan Eilean Siar

George Black, Director of Finance, Glasgow City Council

Valerie Davidson, Head of Finance, Strathclyde Passenger Transport, formerly Depute Director, CIPFA Scotland

David Dorward, Director of Finance, Dundee City Council

Brian Duncan, Chief Internal Auditor, Renfrewshire Council

Ian Fifield, Policy and Technical Manager (Audit), CIPFA

Robert Mackenzie, Partner, Scott-Moncrieff CA

Alex Mackie, Internal Audit Manager, East Lothian Council

Hamish McKay, Chief Internal Auditor, University of Edinburgh

David McLaren, Manager, PricewaterhouseCoopers

David Montgomery, Chief Executive, East Ayrshire Council

Marie Moy, Senior Finance Manager, Social Work Resources, South Lanarkshire Council, formerly Chief Internal Auditor, South Lanarkshire Council

Gavin Stevenson, Chief Auditor, Audit Scotland, formerly Chief Auditor, Fife & Forth Valley Internal Audit Consortium

Norie Williamson, Head of Finance, COSLA

Janine Wilson, Audit, VFM and Risk Manager, Angus Council

Appendix 2. Assessment and scoring methodology

Undertaking the assessment

External auditors assessed each council's arrangements for internal audit against accepted good practice as set out in the CIPFA Code of Practice for Internal Audit in Local Government. The assessments were completed during February 2001 and reflect councils' arrangements at that time.

The performance assessment framework used by external auditors is based on six critical success factors. Auditors scored council performance by testing almost 100 processes within 15 areas of good practice (Exhibit 18). These reflect the issues that the study advisory group and other consultees (including council internal auditors, and the Commission's appointed external auditors), felt were essential for delivering a Best Value internal audit service.

Exhibit 18: Structure of the assessment

Fifteen statements of good practice and 97 tests on council processes and outcomes support the six critical success factors.

Six critical success factors	Fifteen statements of good practice	Ninety-seven tests on individual council processes and outcomes
eg, having effective reporting and follow-up arrangements	eg, internal audit has clear reporting arrangements that provide management with an opinion on the adequacy of internal control	eg, internal audit produces clear, concise and constructive written reports

Source: Audit Scotland

External auditors tested documentary evidence, processes and outcomes to assess the degree of compliance with good practice. The following example shows how the scoring system was applied to documentary evidence.

- 1 = 'no' – ie, performance does not comply with good practice (eg, document does not exist or very early draft)
- 2 = 'qualified no' – ie, performance on the whole does not comply with good practice (eg, terms of reference are available in draft but have yet to be approved and are not in use operationally, or a formally approved document which misses out most of the important issues)
- 3 = 'qualified yes' – ie, performance on the whole complies with good practice, (eg, formally approved document but which misses some important issues or a draft document that, although yet to be formally approved, is in use operationally)
- 4 = 'yes' – ie, performance complies with good practice (eg, formally approved document covering all of the important issues).

Consistency and validation checks

To ensure auditors' assessments were consistently scored, the study team provided training and undertook robust validation procedures including:

- holding training workshops for auditors to familiarise them with the methodology and assessment process
- holding further workshops to ensure that auditors' assessments were undertaken consistently
- conducting extensive consistency checks on auditors' assessments and council data returns
- having a sample of 50% of assessments subjected to independent peer review by other external auditors.

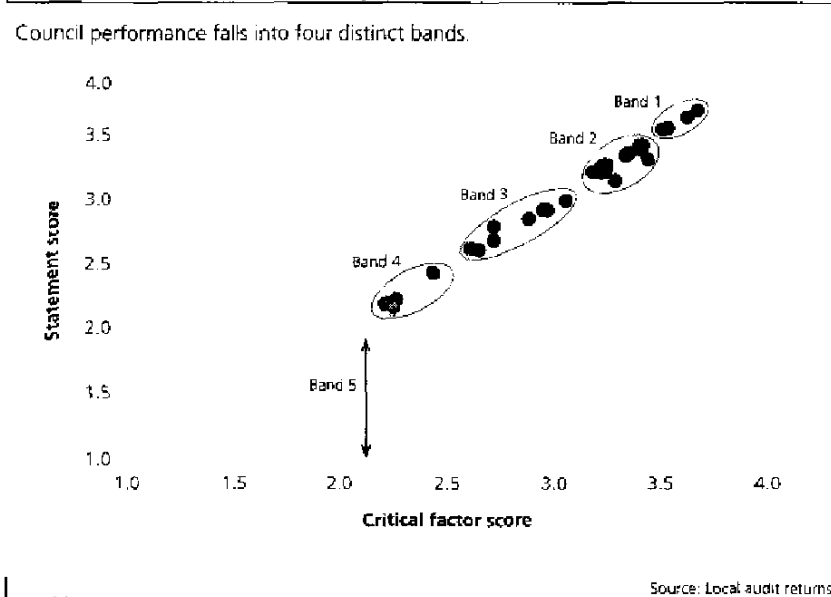
Although the study team has made every effort to ensure that the assessments have been scored on a consistent basis, there always remains an element of subjectivity in scoring performance. For this reason, we are neither ranking overall council performance, nor giving individual scores.

Assessing overall performance

The scores for each test were used to calculate the average score for each statement. These were then used to calculate a council score for each of the six critical factors.

Exhibit 19 shows a scatterplot of the scores for the six critical factors and the 15 statements, for each council.

Exhibit 19: Bands of internal audit performance



Four robust ranges of overall council performance emerged. The ranges in the overall scores were then used to create bands of performance (Exhibit 20).

Exhibit 20: The link between council scores and performance bands

Councils' actual scores were used to assess overall compliance and to create performance bands.

Actual overall scores	Overall compliance with Code (Note 1)	Performance bands created from analysis of actual results	
	%	Performance band	Range
3.56 - 3.71	85 - 90	1	3.50 - 4.00
3.24 - 3.44	72 - 81	2	3.10 - 3.50
2.64 - 3.01	54 - 67	3	2.50 - 3.10
2.21 - 2.45	39 - 48	4	1.75 - 2.50
Note 2	Note 2	5	1.00 - 1.75

Source: Audit Scotland

Notes:

- The percentage compliance was calculated for each score thus:

$$\text{Percentage compliance} = (\text{score} - 1) / 3 \times 100$$

Because the lowest score that a council could achieve is 1 and the highest is 4, a score of 2.5 represents a percentage compliance score of 50%.

- Although, overall, no council scored below 2.2, a fifth band was created only for the purposes of Appendix 4, to allow poor performance for a particular statement to be identified. 'Hotel star' ratings were awarded to each performance band.

Exhibit 21 shows how the average scores convert to 'hotel star' ratings. The star ratings indicate each council's performance – overall, and for each area. Because the ratings for each statement have been rounded, adding them together may not produce the council's overall score.

Exhibit 21: The relationship of 'hotel stars' and average scores

The 'hotel stars' reflect the performance bands.

Average scores for each statement		'Hotel stars' symbol
Equal to or more than	But less than	
3.50	4.00	★★★★★
3.10	3.50	★★★★
2.50	3.10	★★★
1.75	2.50	★★
1.00	1.75	★

Source: Audit Scotland

Appendix 3. Results of external audit assessments

Band	Assessment	Overall	1	2	3	4	5	6	7	8
Band 1	Comhairle nan Eilean Siar	****	****	****	****	****	****	****	****	****
	East Ayrshire	****	****	****	****	****	****	****	****	****
	East Renfrewshire	****	****	****	****	****	****	****	****	****
	West Lothian	****	****	****	****	****	****	****	****	****
Band 2	Aberdeen City	****	****	****	****	****	****	****	****	****
	Aberdeenshire	****	****	****	****	****	****	****	****	****
	Angus	****	****	****	****	****	****	****	****	****
	Dumfries & Galloway	****	****	****	****	****	****	****	****	****
	Dumfries City	****	****	****	****	****	****	****	****	****
	East Lothian	****	****	****	****	****	****	****	****	****
	Edinburgh, City of	****	****	****	****	****	****	****	****	****
	Glasgow City	****	****	****	****	****	****	****	****	****
	Highland	****	****	****	****	****	****	****	****	****
	Moray	****	****	****	****	****	****	****	****	****
	Perth & Kinross	****	****	****	****	****	****	****	****	****
	Renfrewshire	****	****	****	****	****	****	****	****	****
	Scottish Borders	****	****	****	****	****	****	****	****	****
	South Lanarkshire	****	****	****	****	****	****	****	****	****
	Shiring	****	****	****	****	****	****	****	****	****
Band 3	Clackmannanshire	****	****	****	****	****	****	****	****	****
	Falkirk	****	****	****	****	****	****	****	****	****
	Midlothian	****	****	****	****	****	****	****	****	****
	North Ayrshire	****	****	****	****	****	****	****	****	****
	North Lanarkshire	****	****	****	****	****	****	****	****	****
	Orkney Islands	****	****	****	****	****	****	****	****	****
	South Ayrshire	****	****	****	****	****	****	****	****	****
	West Dunbartonshire	****	****	****	****	****	****	****	****	****
Band 4	Argyll & Bute	****	****	****	****	****	****	****	****	****
	East Dunbartonshire	****	****	****	****	****	****	****	****	****
	Inverclyde	****	****	****	****	****	****	****	****	****
	Shetland Islands	****	****	****	****	****	****	****	****	****
	Scotland	****	****	****	****	****	****	****	****	****
Overall		****	****	****	****	****	****	****	****	****
	Total number of co	5	4	3	2	1	0	0	0	0

Internal audit has agreed terms of reference

The respective roles of management and internal audit in maintaining internal control are clearly defined and communicated

Internal audit has a clear role in relation to fraud

Internal audit has sufficient operational status to be able to undertake its work effectively

Internal audit is free of operational responsibilities that could compromise its independence

Internal audit bases its work on a comprehensive risk assessment

Internal audit operates within a structured planning framework

Internal audit has effective relationships with council members, council managers, external audit, inspectors and other agencies

		Internal audit properly manages, controls and records its work	Internal audit is adequately staffed and resourced	Internal audit staff are suitably trained and developed	Internal audit has clear reporting arrangements that provide management with an opinion on the adequacy of internal controls	Internal audit follows up their recommendations to ensure action is taken	Internal audit has a performance management framework that ensures continuous review of its performance	The chief internal auditor promotes and maintains professional standards in internal audit
		9	10	11	12	13	14	15
Band 1	Comhairle nan Eilean Siar	*****	****	*****	****	*****	****	*****
	East Ayrshire	*****	****	*****	*****	****	****	*****
	East Renfrewshire	*****	*****	****	*****	****	****	*****
	West Lothian	*****	***	****	*****	*****	*****	****
Band 2	Aberdeen City	*****	****	***	*****	*	*****	**
	Aberdeenshire	****	****	***	****	****	*****	*****
	Angus	*****	****	*****	****	***	***	*****
	Dumfries & Galloway	**	*****	****	*****	****	**	*****
	Dundee City	****	****	*****	***	*	****	****
	East Lothian	*****	*****	***	*****	**	***	*****
	Edinburgh, City of	*****	****	*****	*****	**	****	*****
	Fife	*****	****	*****	***	****	****	*****
	Glasgow City	****	****	***	****	***	*****	****
	Highland	*****	****	*****	****	****	**	****
	Moray	*****	***	**	*****	**	*****	*****
	Perth & Kinross	*****	****	*****	****	****	****	*****
	Renfrewshire	*****	***	*****	*****	****	***	*****
	Scottish Borders	****	****	*****	****	**	**	**
South Lanarkshire	****	****	*****	**	**	**	*****	
Stirling	****	**	*****	*****	****	**	***	
Band 3	Clackmannanshire	****	**	****	***	●	**	***
	Falkirk	****	***	***	****	*****	**	*****
	Midlothian	*****	**	***	****	**	***	*****
	North Ayrshire	***	***	**	****	**	**	***
	North Lanarkshire	**	***	**	**	**	****	****
	Orkney Islands	*****	**	****	***	****	**	****
	South Ayrshire	***	***	**	*****	***	**	*****
	West Dunbartonshire	****	****	**	***	***	**	****
Band 4	Argyll & Bute	**	**	**	***	**	*	***
	East Dunbartonshire	**	**	**	***	**	●	****
	Inverclyde	**	*	*	***	●	**	***
	Shetland Islands	****	***	**	***	***	*	***
	Scotland	****	***	***	****	***	***	****

Number of councils by assessment band, for each statement

Band	Assessment	9	10	11	12	13	14	15
1	*****	17	3	12	11	2	5	17
2	****	8	14	4	10	11	8	7
3	***	3	10	8	10	7	10	8
4	**	4	4	7	1	10	6	0
5	*	0	1	1	0	2	3	0
Total number of councils		32	32	32	32	32	32	32

Appendix 4. Council scores for each of the 97 tests

The table shows, for each test, the number of councils scoring 1, 2, 3 or 4, and the average compliance score across all 32 councils. Each test is numbered according to its relevant statement number.

Statement reference	Issues tested	Number of councils scoring				Average council compliance %
		N	Q1	Q3	Y	
Setting clear and properly focused objectives						
<i>Internal audit has agreed terms of reference.</i>						
1.1	The internal audit section has written terms of reference.	2	7	5	18	74
1.2	The TOR have been agreed between the chief internal auditor, senior management and councillors.	2	7	8	15	71
1.3	The TOR have regard to the CIPFA Code of Practice and guidance published by relevant accountancy bodies.	4	2	13	13	70
1.4	The TOR frame objectives for internal audit that take account of the council's corporate aims and objectives.	7	6	10	9	55
1.5	The TOR make clear that internal audit should not be a substitute for effective control.	12	3	7	10	49
1.6	The TOR authorise internal audit's free access to all operations, information, records, assets and personnel across the council.	1	1	5	25	90
1.7	The TOR are reflected in the council's standing orders and financial regulations.	2	5	7	18	76
1.8	The communication arrangements between Members and the chief internal auditor are set out in the TOR or standing orders.	12	4	8	8	46
1.9	The TOR are communicated across the council in the form of a mission statement or charter.	7	7	8	10	55
1.10	The TOR have been reviewed since April 1996, ie since local government reorganisation.	4	3	5	20	76
<i>The respective roles of management and internal audit in maintaining internal controls are clearly defined and communicated.</i>						
2.1	Management has defined control objectives for all major systems (financial and non-financial).	9	7	11	5	46
2.2	Internal audit is consulted about significant proposed changes to internal control systems.	1	8	15	8	65
2.3	The chief internal auditor provides an overall assessment for management of the robustness of internal control for the council's main systems, based on the work done that year.	15	9	4	4	30
2.4	Internal audit reviews demonstrate to managers the strength of internal controls and the levels of risk within their systems.	1	3	18	10	72
2.5	The chief internal auditor reports to the responsible finance officer the basis for demonstrating compliance with Section 95 of the Local Government (Scotland) Act 1973.	6	3	7	16	68

Statement reference	Issues tested	Number of councils scoring				Average % compliance
		N	QN	QY	Y	
	<i>Internal audit has a clear role in relation to fraud.</i>					
3.1.	The council has an anti-fraud and corruption strategy.	4	7	5	16	68
3.2.	A framework for internal audit involvement in fraud investigation and prosecution is set down in the anti-fraud and corruption strategy.	5	3	6	18	72
3.3.	The council has a fraud response plan.	4	6	7	15	68
3.4.	The fraud response plan clearly sets out the roles and responsibilities of internal audit and management and includes a protocol for informing the police.	3	6	7	16	71
3.5.	The council has a 'whistleblowing' policy or confidential reporting procedure that has been communicated to all staff.	6	5	4	17	67
3.6.	Where appropriate, fraud investigations lead to recommendations to help disclose similar frauds and improve internal control.	0	2	8	22	88
3.7.	The anti-fraud and corruption strategy and fraud response plan have been reviewed since April 1996.	6	4	3	19	70
	Maintaining internal audit independence					
	<i>Internal audit has sufficient organisational status to be able to undertake its work effectively</i>					
4.1	The chief internal auditor has direct access to Members, the chief executive and senior managers.	0	2	14	16	81
4.2	The chief internal auditor formally discusses the work and performance of internal audit with the chief executive/audit committee or equivalent at least annually.	3	3	5	21	79
4.3	Internal audit determines its own priorities, based on risk assessment, in consultation with management.	1	5	9	17	77
4.4	The chief internal auditor submits reports to the responsible finance officer under S95 or to a more senior manager in the council.	2	6	3	21	78
4.5	The level of seniority (management tier) of the chief internal auditor within the management structure helps it to function effectively and independently.	0	7	10	15	75
4.6	Internal audit has unrestricted access to people, systems, documents and property as it considers necessary for the proper fulfilment of its responsibilities.	0	0	3	29	97
4.7	The chief internal auditor is free to report, without fear or favour, eg, the chief internal auditor has the right of final edit and issues reports in his or her own name.	0	2	10	20	85
	<i>Internal audit is free of operational responsibilities that could compromise its independence.</i>					
5.1	Internal audit is independent of any line-management task and is seen to be independent.	1	4	10	17	78
5.2	Where internal audit provides advice and consultancy work, staff are clear when they are operating as auditors and when they are not.	0	2	10	20	85
5.3	The chief internal auditor plans assignments to minimise the possibility of staff conflicts of interest.	1	4	9	18	79
5.4	Whilst reporting to the responsible finance officer, the chief internal auditor has freedom of access to all members and officers, especially the chief executive.	0	0	13	19	86
5.5	Staff with family or close friends within the council do not audit activities within their area of work.	0	6	10	16	77

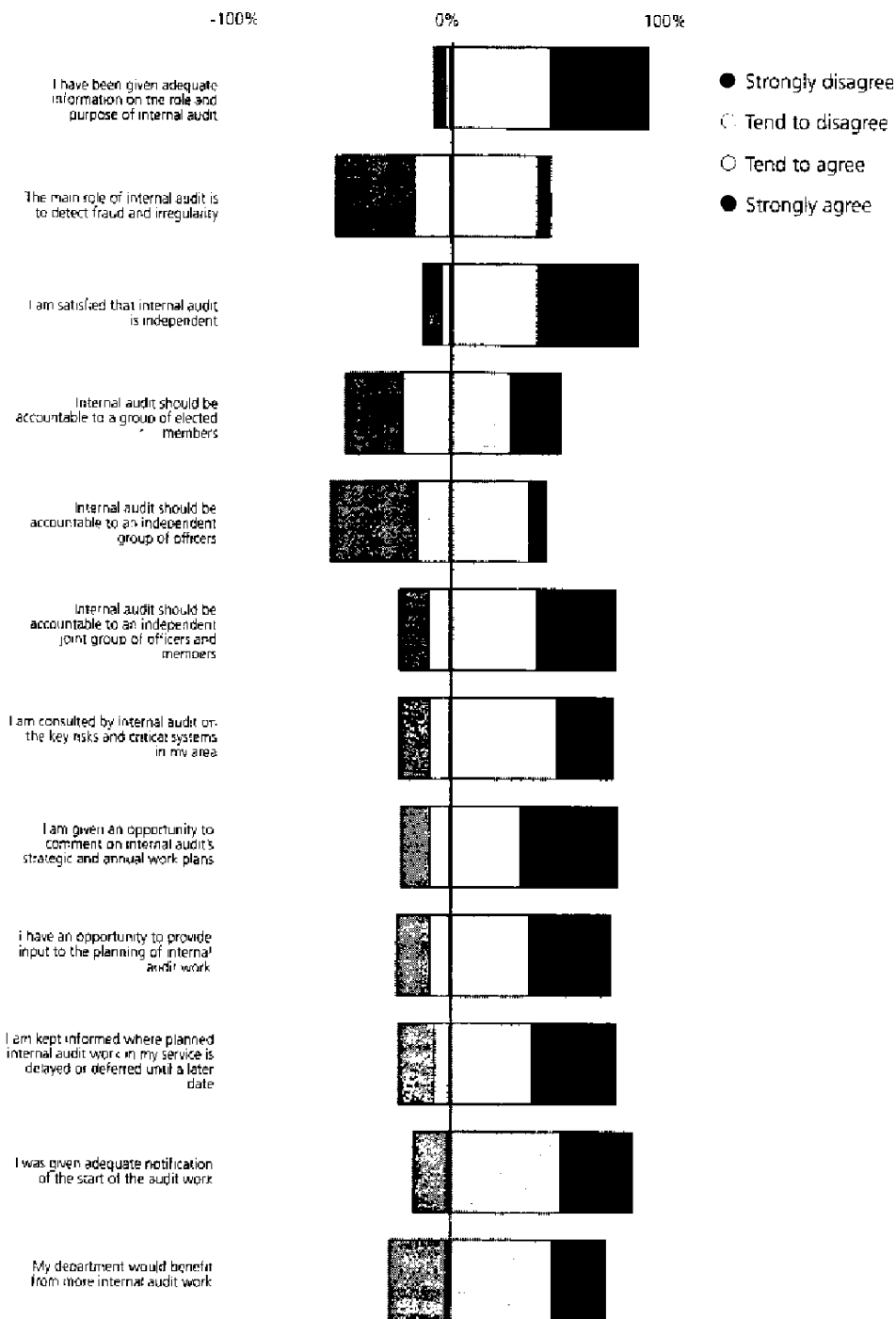
Statement reference	Issues tested	Number of councils scoring				Average council compliance %
		N	ON	OY	Y	
Planning and controlling the work of internal audit						
<i>Internal audit bases its work on a comprehensive risk assessment.</i>						
6.1	Internal audit bases its risk assessment on information from the authority's risk management process and an agreed audit risk methodology.	9	11	5	7	44
6.2	Internal audit consults widely with management to identify critical systems and risks.	1	6	14	11	70
6.3	Internal audit has a comprehensive understanding of the authority's systems, structures and operations.	0	2	12	18	83
6.4	Internal audit uses a formal framework to assess risks.	8	6	3	15	59
6.5	Internal audit uses the risk assessment to prepare audit plans and prioritise its work.	4	4	9	15	70
6.6	Internal audit reviews its risk assessment periodically, depending on the extent of change within the organisation.	6	6	12	8	56
<i>Internal audit operates within a structured planning framework.</i>						
7.1	Internal audit plans link back to the council's corporate aims and objectives and are co-ordinated with other review programmes (eg. Best Value reviews).	4	12	12	4	50
7.2	Audit plans are produced in consultation with senior managers across the organisation.	0	5	7	20	82
7.3	Internal audit has a strategic plan based on risk assessment, which sets out the audit scope and objectives.	4	7	8	13	65
7.4	The strategic plan sets out the resources required to meet the audit needs of the council and identifies any mismatch between resource needs and resource availability.	11	11	5	5	38
7.5	An annual audit plan is produced which translates the strategic plan into audit assignments to be undertaken during the year.	1	5	7	19	79
7.6	Project plans are set out for each audit assignment, which allocate resources, set out the scope and objectives of the assignment and establish target completion dates.	3	8	10	11	64
7.7	Audit plans are flexible enough to accommodate work that has arisen during the course of the plan without resulting in core risk areas not being reviewed.	6	4	10	12	63
7.8	Significant changes to audit plans are approved by senior management and the audit committee (or equivalent).	5	4	9	14	67
7.9	The planning process takes account of the work undertaken by external audit and other review agencies and inspectorates.	2	2	16	12	73
7.10	Internal audit strategic plans are reviewed to reflect the changed priorities of the council.	3	7	12	10	64
7.11	The agreed annual audit plan is only revised in exceptional circumstances.	2	2	12	16	77
<i>Internal audit has effective relationships with council members, council managers, external audit, inspectorates and other agencies</i>						
8.1	The timing of internal audit assignments is normally arranged with the management concerned to minimise disruption.	0	2	11	19	84
8.2	There is an ongoing dialogue between the internal auditor and client service throughout the audit assignment.	0	1	10	21	88
8.3	External audit place reliance on the work of internal audit.	2	0	12	18	81
8.4	Internal audit and external audit regularly exchange audit information.	1	8	13	10	67
8.5	Internal audit effectively co-ordinates its work with external audit and other review agencies.	1	4	17	10	71
8.6	Internal audit maintains good working relationships and channels of communication with elected members.	4	6	9	13	66

Statement reference	Issues tested	Number of councils scoring				Average of Councils of compliance
		N	ON	QY	Y	
	<i>Internal audit properly manages, controls and records its work</i>					
9.1.	Internal audit has documented policies and procedures contained in an audit manual.	3	5	7	17	73
9.2.	The chief internal auditor allocates staff to assignments according to their skills and experience.	0	1	9	22	89
9.3	Internal audit staff understand the objectives of their assignments and their responsibilities.	0	2	13	17	82
9.4	Internal audit has a rigorous approach to collecting and managing evidence.	0	3	11	18	82
9.5	Adequate working papers are prepared to support internal audit findings, conclusions and recommendations.	0	5	12	15	77
9.6.	Internal audit work is documented at all levels from audit planning to reporting	1	4	11	16	77
9.7.	Internal audit assignments are adequately supervised and reviewed.	0	5	12	15	77
	Resourcing the internal audit work programme					
	<i>Internal audit is adequately staffed and resourced.</i>					
10.1	The chief internal auditor is professionally qualified and has wide experience of internal audit and its management.	1	1	4	26	91
10.2	The chief internal auditor has identified a staffing structure that enables internal audit to meet its objectives and the changing needs of the organisation.	4	5	18	5	58
10.3	Internal audit has adequate resources to enable it to meet its work objectives efficiently and effectively.	4	8	20	0	50
10.4.	Internal audit employs or has access to people with relevant skills and experience in order to undertake the required tasks.	2	6	21	3	59
10.5.	Where required the chief internal auditor can 'buy in' people for specialist work who are suitably experienced and qualified.	6	10	7	9	53
10.6.	Internal audit uses the latest technology for planning, audit work and reporting.	1	4	19	8	69
10.7.	All audit staff have job descriptions and personnel specifications that reflect their current post.	2	2	6	22	83
	<i>Internal audit staff are suitably trained and developed.</i>					
11.1.	An induction programme has been prepared for all new audit staff.	4	9	10	9	58
11.2.	Training is tailored to the needs of individual auditors and includes both theoretical knowledge and its practical application.	3	6	10	13	68
11.3	Internal auditors keep up-to-date with current developments in auditing and the issues facing the audited body.	0	4	12	16	79
11.4.	All staff maintain competence through professional development.	1	6	11	14	73
11.5	The chief internal auditor co-ordinates and keeps under review the training and development requirements of internal audit staff.	1	9	8	14	70
	Reporting and follow-up arrangements					
	<i>Internal audit has clear reporting arrangements that provide management with an opinion on the adequacy of internal controls.</i>					
12.1	The chief internal auditor produces an annual report, which contains a view on the soundness of the council's internal control system.	13	9	4	6	36
12.2.	Internal audit has documented, systematic, procedures in place for producing and clearing reports.	1	6	6	19	78
12.3.	Reporting arrangements, including timescales for drafting, finalisation and management action have been agreed with management.	4	8	13	7	57

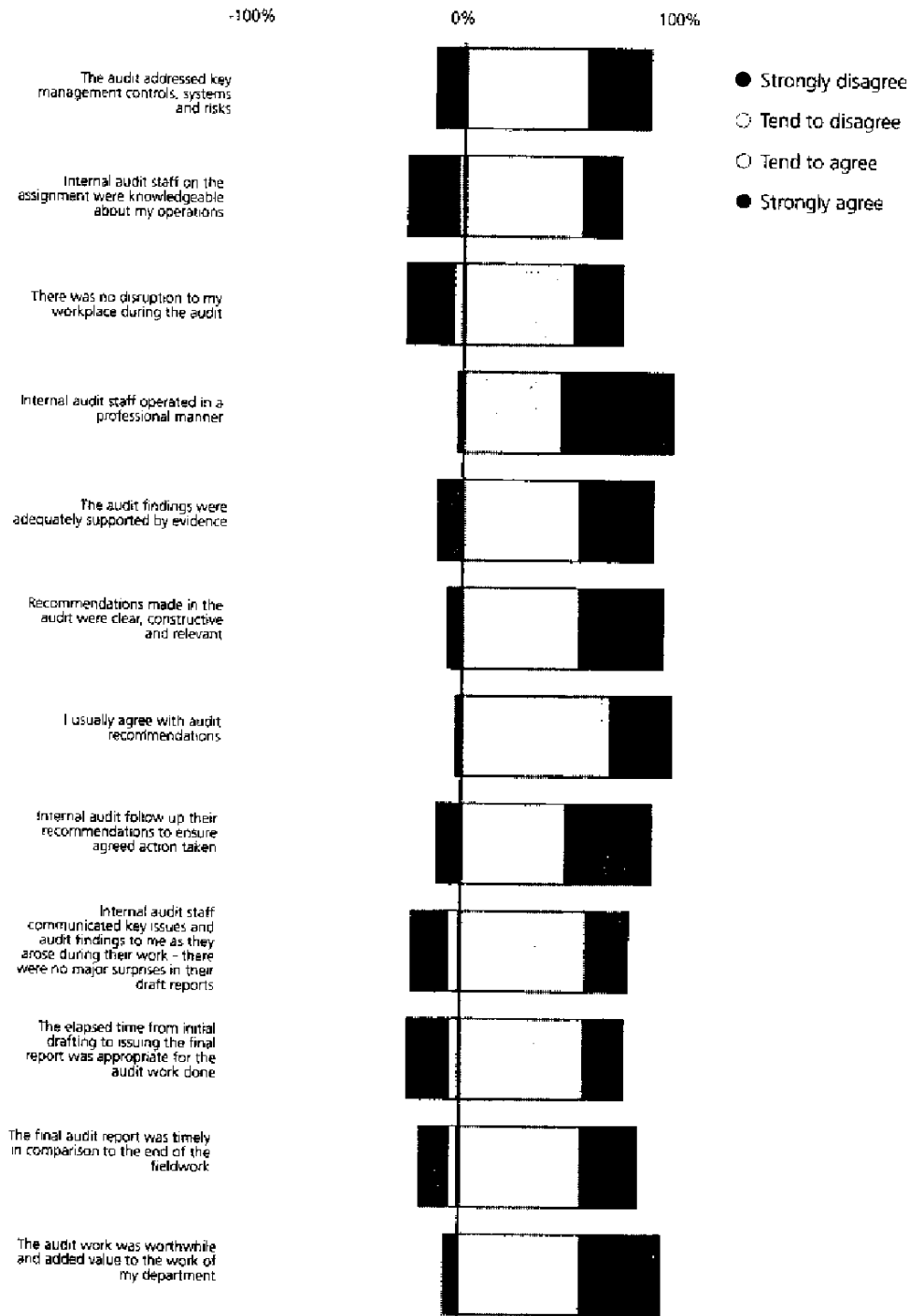
Statement reference	Issues tested	Number of councils scoring				Average council % compliance
		N	QN	QY	Y	
12.4.	Internal audit produces clear, concise, constructive written reports.	0	1	16	15	81
12.5.	Before issuing final reports, internal audit discusses the contents with management, and may submit a draft to confirm factual accuracy.	0	0	5	27	95
12.6.	Where internal audit and management disagree the relevance of the factual content, the chief internal auditor has the opportunity to refer to this in his/her report. <i>internal audit follows-up recommendations to ensure action is taken.</i>	0	0	5	27	95
13.1.	Internal audit, agrees 'SMART' action plans, which identify persons responsible for implementation, with management to review progress of implementation by both parties.	3	2	9	18	77
13.2.	Internal audit reports instances of failure to comply with action plans to the corporate management team.	6	8	12	6	52
13.3.	Where management do not implement internal audit findings, it is clear that they accept the risk resulting from not taking action.	4	8	15	5	55
13.4.	The results of follow-up work by internal audit are used to update the comprehensive risk assessment.	6	12	10	4	46
13.5.	The results of follow-up work by internal audit are used to inform updated audit plans.	4	6	13	9	61
Holding internal audit to account for its performance						
<i>Internal audit has a performance management framework that ensures continuous review of its performance.</i>						
14.1.	Internal audit is accountable to an audit committee or equivalent body.	9	5	5	13	56
14.2.	The chief internal auditor prepares an annual plan that is presented to senior management and the audit committee (or its equivalent).	3	4	9	16	73
14.3.	Internal audit has a documented system for evaluating the performance of the unit as a whole.	3	7	15	7	60
14.4.	The chief internal auditor uses a set of indicators to measure the performance of internal audit.	2	7	14	9	65
14.5.	The chief internal auditor continuously maintains and develops the performance of internal audit.	1	3	13	15	77
14.6.	Internal audit is accredited under a national or international quality standard (eg, IIP, EFQM, etc). <i>The chief internal auditor promotes and maintains professional standards in internal audit.</i>	16	4	7	5	34
15.1.	Internal auditors possess knowledge of the council and its systems to a level commensurate with their role in the unit.	0	1	12	19	85
15.2.	Internal auditors are impartial in discharging their responsibilities.	0	1	9	22	89
15.3.	Disciplinary procedures are invoked where a staff member contravenes the ethical standards required by the accountancy bodies.	0	2	13	17	82
15.4.	Internal audit maintains a current register of declarations of interest, and acceptance of hospitality.	5	6	12	9	59

Appendix 5. Client survey findings

Questionnaires were provided to each council's head of service for education, housing and social work. For each question, the table shows the percentage of respondents who agreed or disagreed, and the average score. A total of 86 responses were received from a potential maximum of 96 questionnaires (90% response rate).

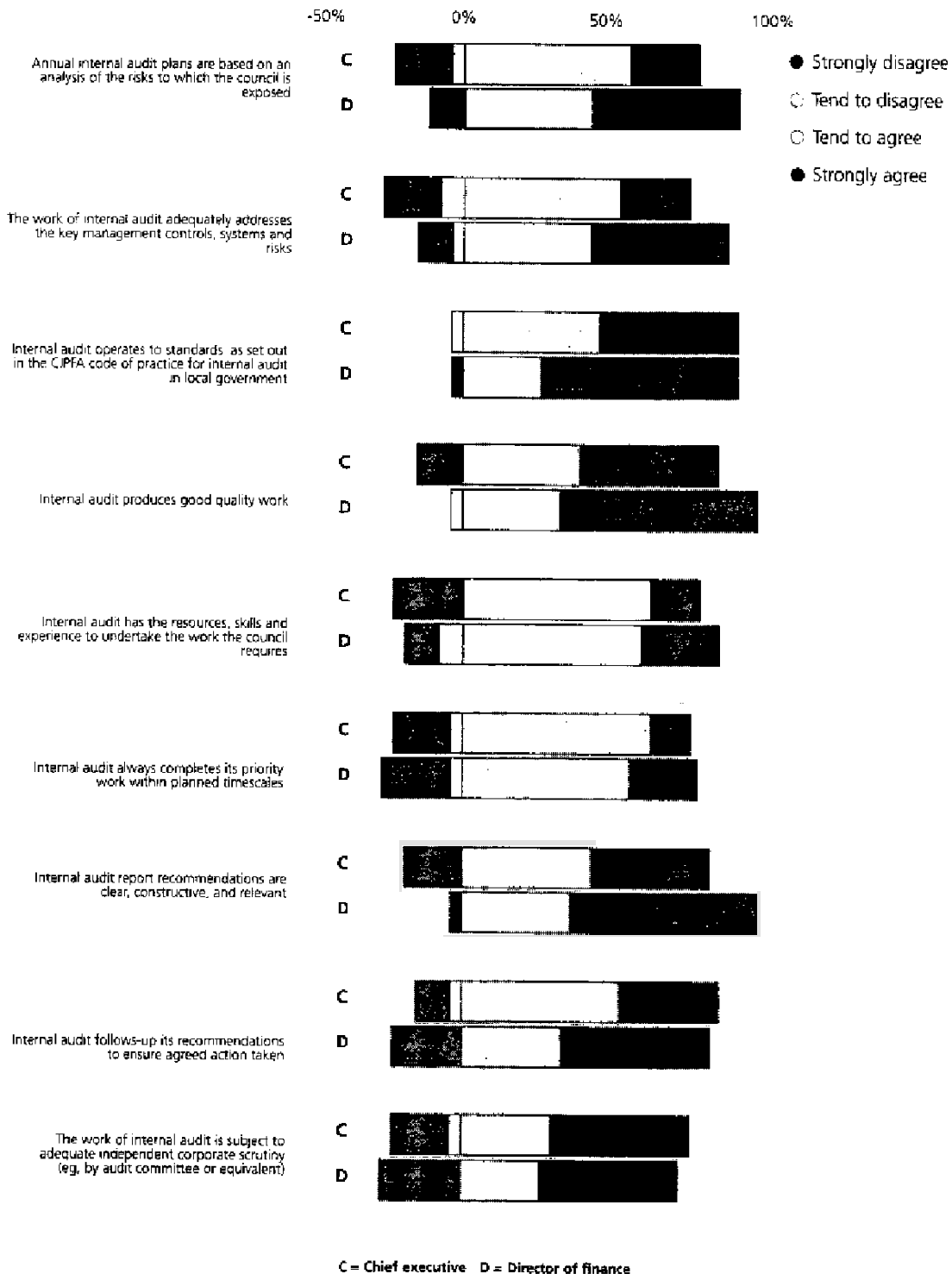


Client survey findings, continued.



Appendix 6. The views of chief executives and directors of finance

There were 30 responses from chief executives (94% response) and 31 responses from directors of finance (97% response).



Notes

- ¹ 'Auditing Practices Board Auditing Guidelines'.
- ² Section 95 of the Local Government (Scotland) Act 1973.
- ³ *Internal control* – The whole system of controls, financial and otherwise, established to provide reasonable assurance of effective and efficient operations, reliable financial information and reporting and compliance with laws and regulations.
- ⁴ Developments in the private sector that have had a significant impact on how an internal audit function should operate include:
 - 1992 – 'The report on the Committee of Financial Aspects of Corporate Governance' (the Cadbury report) defines corporate governance as "the system by which organisations are directed and controlled". Cadbury suggested three important principles: openness, integrity, and accountability.
 - 1994 – The Rutterman working group published its guidance: '*Internal Control and Financial Reporting: Guidance for Directors of Listed Companies Registered in the UK*'.
 - 1995 – The Greenbury Committee provided recommendations on good practice in determining directors' pay.
 - 1995 – The Hampel Committee produced a '*Combined Code*' for stock exchange listed companies embracing the Cadbury Committee guidance, the Greenbury Committee, and its own work.
 - 1999 – The Turnbull Committee report '*Internal Control: Guidance for Directors on the Combined Code*' has provided guidance on how the Combined Code should be implemented.
- ⁵ *The Leadership Advisory Panel (LAP)*, chaired by Alastair McNish was set up as a result of the recommendations contained in the McIntosh report, which required all councils to consider whether their policy development and decision-making processes were fit for the 21st century in terms of openness, transparency and accountability. The LAP reported to Ministers in June 2001 on the outcome of the self-reviews of policy development and decision-making processes carried out by the 32 councils. It provides assessments on the approach taken by each council in conducting its review and how well the new arrangements meet the McIntosh recommendations.
- ⁶ '*Corporate Governance in the Public Sector*', published jointly by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE), June 2001.

- ⁷ 'Implications for Audit of the Modernising Government Agenda', Public Audit Forum, April 1999. 'Audit Implications of Electronic Service Delivery in the Public Sector', Public Audit Forum, April 2001.
- ⁸ *Public Audit Forum* – Forum established by the four national audit agencies.
- ⁹ 'Code of Practice for Internal Audit in Local Government in the United Kingdom', CIPFA, October 2000.
- ¹⁰ See note 1.
- ¹¹ *Aggregate council revenue expenditure* – estimated total net revenue expenditure plus housing revenue account income, CIPFA Rating Review, 1999/2000.
- ¹² *Systems-based audit* involves the auditor documenting the systems being examined, and identifying the controls within that system. Once this has been done, the controls are then evaluated to decide whether they are adequate and sufficient. The auditor, as well as confirming the existence of suitable controls, may also highlight expected controls (ie, controls that normally would be present in such a system, but are missing). The controls are then tested to ensure that they are working properly. *Regularity* relates to the consistent application of proper and appropriate public sector regulations and practice.
- ¹³ *Fraud* – the intentional distortion of financial statements and accounting records and/or misappropriation of assets involving deception.
- ¹⁴ *Corruption* – the offering, giving, soliciting or acceptance of an inducement or reward that may influence the actions taken by the audited body, its members or officers.
- ¹⁵ *Control self-assessment (CSA)* – places the onus on managers to assess how the controls for which they are responsible address relevant business risks. CSA uses a questionnaire or workshop approach.

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ARGYLL AND BUTE COUNCIL
FINANCE

AUDIT COMMITTEE
8 NOVEMBER 2001

**AUDIT OF ACCOUNTS 2000/2001
MEMBERS' LETTER, AUDIT CERTIFICATE AND CERTIFIED ACCOUNTS**

1 SUMMARY

In accordance with the legislation, the Certified Accounts, Audit Certificate and the External Auditors' Letter to Members were submitted to the Council meeting on 1 November 2001. Copies are attached to this report.

The external auditors have issued a clear audit certificate and all DLO/DSO operations achieved the financial objective of at least break even.

The completion of the audit of accounts for the year 2000/2001 within the timescale set by Audit Scotland means that the Council continues to be completely up-to-date in completion and audit of accounts.

An Action Plan is included as Appendix 1 of the auditors Final Report to Members. It is important that agreed actions are completed timeously and internal audit should monitor and report to the Audit Committee on compliance with the Action Plan.

2. RECOMMENDATION

Internal audit monitor adherence to the Action Plan and submit a report to the Audit Committee during the course of the year 2002.

Stewart McGregor
Director of Finance
9 October 2001

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ACCOUNTS FOR THE PERIOD

1 APRIL 2000 TO 31 MARCH 2001

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Introduction

This foreword is intended as a comment on Argyll and Bute Council's financial position as presented within the Statement of Accounts for the financial year 2000/2001.

Statement of Responsibilities

This statement sets out the main financial responsibilities of the Council and the Director of Finance.

Accounting Policies

The Statement of Accounting Policies sets out the basis upon which the Financial Statements have been prepared, and explains the accounting treatment of both general and specific items.

The Financial Statements*Consolidated Revenue Account*

shows the income raised by the Council during the year and how it was spent on services, financing costs and contributions to/from reserves. A comparison to budget is also made in this statement. The surplus or deficit is carried to the Statement of Total Movement on Reserves. The notes to the Consolidated Revenue Account provide additional information on some costs and income included within the Consolidated Revenue Account.

Housing Revenue Account

reflects the statutory requirement to separately account for local authority housing provision, as defined in the Housing (Scotland) Act 1987. It shows the major elements of housing revenue expenditure and capital financing costs, and how these are met by rents, housing support grant and other income. The surplus or deficit is carried to the Statement of Total Movement in Reserves.

Summary DLO/DSO Revenue and Appropriation Account

gives the summarised financial outcome for each DLO/DSO for the financial year. It also shows how the overall surplus or deficit is dealt with. A note to the statement indicates whether the DLO/DSO's have achieved their statutory financial objective. The overall DLO/DSO position is carried to the Consolidated Revenue Account and Statement of Total Movement on Reserves.

Council Tax Income Account

explains how the council tax income shown for the financial year in the Consolidated Revenue Account is made up.

Non-domestic Rate Income Account

shows the build up of non-domestic rate income, the contribution to or from the national pool and the resulting net income for the financial year to the Council which is shown in the Consolidated Revenue Account.

Consolidated Balance Sheet

brings together all the assets and liabilities of the Council's General Fund, Direct Labour and Direct Service Organisations and Loans Fund. It is the statement of the resources of the Council and the means by which they have been financed. It is also a report on the Council's financial position at one particular point in time, a snapshot of its financial affairs at the close of the year expressed in accounting terms. The notes to the Balance Sheet give further information on the make up of certain assets and liabilities.

Statement of Total Movement in Reserves

gives details of the balances on each reserve at the start of the financial year, movements during the financial year by source and the balance at the end of the financial year as shown in the Balance Sheet.

Consolidated Cash Flow Statement

summarises the inflows and outflows of cash arising from the transactions with third parties on both day to day revenue transactions and expenditure on capital activities.

Major Changes in Accounting Practice

The Council continues to adopt the accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authorities (Scotland) Accounts Advisory Committee (LA(S)AAC). In accordance with best accounting practice the deferred charge balance as at 31 March 2000 has been written out of the balance sheet to the Capital Financing Reserve. Deferred charges arising during the year have been charged in full to the relevant service department's revenue account. The budget figures have been adjusted to aid comparison.

Further more to comply with the 2000 Statement of Recommended Practice (SORP) depreciation has been charged on all operational buildings, again the budget figures have been adjusted to aid comparison.

During 2000/2001 the Council carried out a review of its approach to allocating central support service costs. The outcome is an increase in the transparency, clarity and robustness of these allocations. This has resulted in a number of changes in the allocations to individual services with the budget being adjusted for comparison. The most notable adjustment being a reduction in allocations to the Housing Revenue Account of £0.171m. Except for the Housing Revenue Account budgets have been adjusted to aid comparison.

Property Valuations

It is the intention of Argyll and Bute Council that all land and property inherited from the former District and Regional Councils be revalued through a rolling programme of revaluation. This programme was started during 1999/2000 with all properties of the former Argyll and Bute District Council being valued together with all other properties which had a valuation as at 1 April 1999 greater than £1m. This programme of revaluation continued during 2000/01 with the revaluation of all Primary Schools and 84 of the non-operational buildings.

Council dwellings were revalued at the 31st March 2001.

Asset Impairment

In compliance with Financial Reporting Standard 11, Impairment of Fixed Assets and Goodwill, the Council has reviewed the valuations of its assets at 31 March 2001 to assess any reduction in asset valuations. Arising from these impairment reviews the Council has reduced the valuation of Hermitage Academy and Campbeltown Swimming Pool by £6m and £0.5m respectively. These reductions are reflected in the actual expenditure of Education and Development and Environment Services for the year.

Consolidated Revenue Account

The general fund balance at 31 March 2001 amounted to £0.085m. This is an increase of £0.072m on the budget balance of £0.013m. However it should be noted the Council has forward commitments of £0.468m to be funded from this in respect of specific projects related to the interim award of the Special Islands Needs Allowance (SINA).

The general fund balance of £0.085m can be analysed as follows:

	£'m	£'m
Budgeted utilisation of reserves		(0.351)
Transfer from HRA to General Fund		<u>0.364</u>
Budgeted working balance		0.013
Surplus brought forward from 1999/2000		0.332
Supplementary estimate re feasibility study in Education capital funding		(0.110)
Increased income		
Savings in loan charges	0.800	
Increase in council tax and community charge collection	0.150	
Contribution by DLO/DSO	0.389	
Underspend on projects funded from interim SINA award	0.468	
Other	<u>0.039</u>	
	1.846	
Increased expenditure		
Education	(1.164)	
Transportation and Property Services	(0.529)	
Foot and Mouth precautionary measures	(0.132)	
Reduction in Central Support Allocation to HRA	<u>(0.171)</u>	
	(1.996)	
		(0.150)
General Fund balance 31 March 2001		0.085

During the year the Council took precautionary measures with regard to the national foot and mouth outbreaks. The amount of expenditure incurred during 2000/2001 was £0.132m. This cost was met by the Development and Environment Services and has been included in the total expenditure chargeable against Section 83 of the Local Government (Scotland) Act 1973.

The income and expenditure of the Education service reflects additional central government grant funding of £1.2m allocated to schools which has been spent on additional staffing and school supplies. This income and expenditure was additional to budget.

The major reasons for increases in Education expenditure include cleaning and catering costs, pupil transport and teaching staff costs. The contributing factors within Transportation and Property Services include additional costs related to winter maintenance of roads, unbudgeted staff costs and reduced income levels.

DLO/DSO's

During 2000/2001 the Council's DLO/DSO's achieved a surplus of £0.389m. The surplus has been taken as a contribution to the General Fund. All DLO/DSO's met their statutory financial objective. In a period of financial constraints this is a welcome outcome and reflects positively upon the Council's management of direct services.

Housing Revenue Account

The balance on the HRA reserve stands at £1.573m at 31 March 2001. This compares to a budgeted balance of £1.811m. The main factors giving rise to the reduction of £0.238m in the reserve are as follows:

Housing Revenue Account (Continued)	£'m
Savings in capital financing costs and interest	0.178
Increase in other income	0.305
Reduction in central support service allocation	0.171
Increased Income	0.654
Additional expenditure on repairs and maintenance	(0.518)
Void house rents and provision for bad debts	(0.299)
Other movements	(0.075)
Increased Expenditure	(0.892)
Reduction in HRA Reserves	(0.238)

Budgeted contributions of £0.7m to supplement the capital expenditure programme and a transfer to the general fund of £0.364m were made.

Capital Expenditure

The Council incurs capital expenditure within limits laid down by the Scottish Executive who issue consents under Section 94 of the Local Government (Scotland) Act 1973. Capital receipts (from the sale of buildings, land, etc.) and private sector contributions are used to enhance these consents, subject to certain Scottish Executive restrictions placed on the use of receipts. Details of capital expenditure are as follows:

	Composite Programme	Housing Revenue Account
	£'m	£'m
Net Allocation	10.882	1.675
Usable Capital Receipts	1.282	0.800
Capital Financed from Current Revenue	0.134	0.700
Gross Consent	12.298	3.175
Capital Expenditure	12.837	3.175
Excess Expenditure	0.539	-

The excess expenditure on the composite programme, which was planned, is within tolerance limits allowed and will be offset against the consent available in 2001/2002. Containing expenditure within the tolerance limit demonstrates effective management of the substantial capital investment programmes and the continuing pressure upon these programmes. The composite programme includes all services other than Police, Fire and the Housing Revenue Account. Joint Boards control capital expenditure on Police and Fire and are reported separately thereon. The Housing Revenue Account covers capital expenditure on the Council's stock of houses. The composite programme includes additional consent in relation to the redevelopment of Port Askaig Harbour which the Council secured in competition, securing much needed additional investment in the Council area.

Other Significant Matters

The Council has been active in progressing a range of initiatives which although not directly affecting the financial position for the 2000/2001 financial year are worthy of mention in order to gain a full understanding of the Council's business.

Over the last 2 years the Council has been developing a public private partnership to secure the necessary capital investment to meet the Council's long term waste disposal needs. The contract was signed during September 2001.

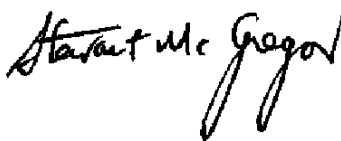
The Council secured funding under the new housing partnerships programme. This funding has been utilised to carry out an options appraisal study for large scale voluntary transfer of the housing stock. The options appraisal is well underway and the outcome of this will be considered over the next year.

In common with other Councils a significant investment in school buildings is required. The Council has adopted a proactive approach to this and allocated funding during 2000/2001 for a feasibility study to investigate how this investment might be achieved. To supplement this the Council secured £0.200m of Scottish Executive funding to develop an outline business case for its education capital investment proposals. This exercise is now underway.

Conclusion

The Council ends the year with a small general fund surplus. However this is committed to projects already underway. Improvements in council tax collection, savings in loan charges, effective management of DLO/DSCs and containment of expenditure in most departments has offset the over expenditure on Education and Transportation and Property Services. There is a small reduction in the HRA reserve. In overall terms the Council has achieved its objectives in fully utilising capital consents.

The Council will continue to pursue initiatives to secure additional funding. Budgetary control will be scrutinised to improve financial control within Education and Transportation and Property Services.



Stewart McGregor
Director of Finance
20 September, 2001

THE AUTHORITY'S RESPONSIBILITIES

The Authority is required:

1. to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance.
2. to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

THE DIRECTOR OF FINANCE'S RESPONSIBILITIES

The Director of Finance is responsible for the preparation of the authority's statement of accounts, which in terms of the GIPFA/LA(S)AAC Code of Practice on Local Authority Accounting in Great Britain ("The Code of Practice"), is required to present fairly, the financial position of the authority as at 31 March 2001 and its income and expenditure for the year ended on that date.

In preparing this statement of accounts, the Director of Finance has:

1. selected suitable accounting policies and applied them consistently;
2. made judgements and estimates that were reasonable and prudent;
3. complied with "The Code of Practice".

The Director of Finance has also:

1. kept proper accounting records which were up to date;
2. taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Accounts have been prepared in accordance with the Code of Practice for the publication of Financial Information. Due regard has been given to the Statements of Recommended Practice and Accounting Standards as they apply to Local Authorities in Great Britain.

1. REVENUE ACCOUNTS

Revenue transactions have been recorded on an income and expenditure basis, actual or estimated sums having been included in respect of known debtors and creditors at the year end.

Customer and client receipts in the form of sales, fees, charges and rents have been accrued in the period to which they relate.

Employee costs have been charged to the period within which the employees worked.

Interest payable on external borrowing and internal interest has been accrued in the period to which it relates on the basis of the overall economic effect of the borrowing.

The cost of supplies and services has been accounted for in the period during which they were received or consumed.

All revenue grants are matched with the expenditure to which they relate. Grants made to finance the general activities of a local authority or to compensate for loss of income are credited to the revenue account of the financial year to which they relate. Specific government grants are accounted for on an accruals basis when the conditions for receipt have been complied with.

2. OVERHEADS

The cost of all Central Support Departments are fully allocated over user departments. Allocations have been based on actual or estimated activity levels, time and floor area.

3. PENSIONS

The cost of providing pensions for employees is charged to the revenue account in accordance with the statutory requirements governing the particular pension schemes to which the Council contributes.

The accounting treatment followed by the Council is not in accordance with the Statement of Standard Accounting Practice 24 (SSAP24), "Accounting for Pension Costs", which requires that the pension costs should be charged to revenue in such a manner as to provide a substantially level charge for current and future pension costs. It is not considered appropriate to reflect non-cash items of this nature in the accounts of the Council and, therefore, the charge for the year represents only the actual contributions paid.

The employer's contributions to the scheme are assessed every three years by a consulting actuary and are calculated to ensure the actuarial solvency of the fund. The cost of pensions to the Council, reflected in the financial statements, is the actual contribution paid in the year as determined by the actuary.

4. CAPITAL ACCOUNTING

Accounting Policy Statement

The accounts have been drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain, which is recognised by statute as representing proper accounting practices. In Scotland the status of the 1993 Code is derived from the Scottish Office Circular 5/1985 and not from a statutory source. Services have been charged for the assets based on their value rather than on the financing costs of debt outstanding on the asset.

Fixed Assets

All expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis.

Disposal of Fixed Assets

The receipts arising from the disposal of fixed assets have been dealt with on an accruals basis. Those of a capital nature are credited to the Capital Financing Reserve.

Depreciation

This policy complies with the requirements of the 2000 SORP which incorporated the introduction of Financial Reporting Standard 15 (FRS15), "Tangible Fixed Assets".

Operational Buildings – Other	-	20 – 50 years
Operational Buildings – Council Dwellings	-	30 years
Infrastructure and Deferred Government Grants thereon	-	40 years
Vehicles	-	4 – 20 years
Plant and Equipment	-	3 – 10 years
Vessels	-	25 years

5. DEFERRED CHARGES

Deferred charges are items that have been charged to the capital account of the authority, but which do not result in the acquisition of a tangible asset for the authority. On the 31 March 2000 these were valued at £43.561m, £34.789m of which was for Argyll and Bute Council investing in private sector housing stock by way of repair, improvement and disablement grants. On 31 March 2001, in line with best accounting practice, these are now shown to have no value as Argyll and Bute Council derives no beneficial ownership of such investment.

Deferred charges arising during the financial year have been written out immediately with service revenue accounts being charged on the basis of the benefit that the service receives as a result of the expenditure. Adjustments have been made through the contribution to the Capital Financing Reserve so that there is no net impact on the amount to be met from government grants and local taxation.

6. STOCK & WORK IN PROGRESS

Stock has been valued at the lower of cost and net realisable value.

Work in progress is reflected in the Revenue Accounts and Balance Sheets of the appropriate trading activities at cost plus, where appropriate, a proportion of overheads together with attributable profits and allowances for future losses.

7. PROVISION FOR BAD AND DOUBTFUL DEBT

Due account has been taken of the likelihood of the collection of outstanding debt, including local tax collection, and, where appropriate, debtor balances have been reduced to reflect this.

8. INSURANCE FUND

An insurance fund has been established in accordance with the Local Government (Scotland) Act 1994.

9. RESERVE FUNDS

A Repairs and Renewals Fund has been established in accordance with the Local Government (Scotland) Act 1975. Reserve Funds for the Direct Labour and Direct Service Organisations have been established in accordance with the relevant CIPFA Code of Practice. A Capital Fund has also been established within the Direct Labour Organisation.

10. LEASING

All current leases are classified as "operating leases" as defined by Statement of Standard Accounting Practice 21 (SSAP 21), "Accounting for Leases and Hire Purchase Contracts". The annual rentals are charged to the appropriate Revenue Account.

11. ASSETS FINANCED BY COVENANT SCHEMES

The accounting treatment of assets financed under Covenant Schemes is in accordance with Section 4.1 of Guidance Note 1 - Covenant Schemes Accounting Treatment and Disclosures - issued by the Local Authority (Scotland) Accounts Advisory Committee (LA(S)AAC). The Council's indebtedness is recorded as a Deferred Covenant Liability in the Consolidated Balance Sheet. The assets have been valued in accordance with Note 4 above.

12. LOANS FUND

In accordance with the Local Government (Scotland) Act 1975 Schedule 3 (12), the Council administers a Loans Fund. All loans raised by the Council are paid into the fund and are pooled. Interest and expenses of the Loans Fund have been calculated and allocated to the revenue account on the basis of debt outstanding on each account at the start of the financial year with a pro-rata adjustment in respect of new advances. Redemption of debt has been calculated and provided for in the Revenue Account on an annuity basis. Interest on revenue balances is allocated on the basis of monthly balances held on the respective accounts.

13. DIRECT LABOUR AND DIRECT SERVICE ORGANISATIONS

Accounts for the Direct Labour and Direct Service Organisations are included in summary format in this document. A detailed set of accounts as required by statute are available on request from Council Headquarters. The Consolidated Revenue Account and Balance Sheet include entries from these as appropriate.

14. MAJOR CHANGES IN ACCOUNTING PRACTICE

In accordance with best accounting practice the deferred charge balance as at 31 March 2000 has been written out of the balance sheet to the Capital Financing Reserve. Deferred charges arising during the year have been charged in full to the relevant service department's revenue account. The budget figures have been adjusted to aid comparison.

Further more to comply with the 2000 Statement of Recommended Practice (SORP) depreciation has been charged on all operational buildings, again the budget figures have been adjusted to aid comparison.

During 2000/2001 the Council carried out a review of its approach to allocating central support service costs. The outcome is an increase in the transparency, clarity and robustness of these allocations. This has resulted in a number of changes in the allocations to individual services with the budget being adjusted for comparison.

1999/00	Actual		2000/01			
			Actual	Actual	Actual	Budget
Net	Net		Gross	Gross	Net	Net
Expenditure	Expenditure	Note	Expenditure	Income	Expenditure	Expenditure
£'000	£'000		£'000	£'000	£'000	£'000
			Council Services			
56,292	Education		76,019	8,754	67,265	58,690
17,022	Development and Environment Service		24,794	6,069	18,725	18,146
20,484	Social Work and Housing Service		45,076	18,813	26,263	25,462
1,106	Housing Revenue Account		14,518	14,135	383	17
19,898	Roads and Transportation Service		38,430	18,457	19,973	19,551
1,817	Central Services to the Public		3,005	1,190	1,815	2,172
2,262	Corporate and Democratic Core		3,379	87	3,292	3,327
11,279	Joint Boards	1	11,466	-	11,466	11,191
130,160	Net Cost of Services		216,687	67,505	149,182	138,556
39	Net (income) / expenditure on the Asset Management Revenue Account	2			830	(298)
130,199	Net Operating Expenditure				150,012	138,258
(1,106)	Surplus/(deficit) transferred to/from HRA Balances				(383)	(17)
(54)	Contribution from Funds and Earmarked Reserves				(757)	(757)
6,261	Contributions to/(from) Capital Financing Reserve	3			(9,614)	461
(280)	Contribution from DLO/DSO				(389)	-
135,020	Amount to be met from Government Grants and Local Taxpayers				138,869	137,945
30,652	Council Tax				32,984	32,877
76,818	Revenue Support Grant				75,852	75,371
25,472	Non-domestic Rates				29,231	29,221
314	Community Charge and Old Rates				191	125
(1,764)	(Deficit) / Surplus for Year				(611)	(351)
	Transfer from HRA Reserves				364	
2,096	General Fund Surplus Brought Forward				332	
332	General Fund Surplus Carried Forward				85	

During the year the valuations of Hermitage Academy and Campbeltown Swimming Pool were revised down to reflect a permanent impairment in value. This amounted to an additional charge of £6.071m being made to the Education service account and £0.511m being made to the Development and Environment service account.

The budget net expenditure per the Consolidated Revenue Account has been revised to reflect charges for depreciation on operation buildings (£3,923,000) and the write-off of deferred charges (£3,341,000) not initially budgeted, the approval to finance items of expenditure from Funds and Earmarked Reserves (£757,000). The budget has also been adjusted to reflect the revised allocation of central support costs. This has no overall affect on the net cost of services.

1. Joint Boards

This account shows payments to the Police, Fire, Passenger Transport and Valuation Joint Boards and to the Authorities Buying Consortium.

1999/2000		2000/01
£'000		£'000
262	Strathclyde Passenger Transport	352
6,481	Strathclyde Police Joint Board	6,406
3,512	Strathclyde Fire Joint Board	3,641
1,006	Dunbartonshire and Argyll & Bute Valuation Joint Board	1,038
18	Authorities Buying Consortium	29
<u>11,279</u>	Total Joint Boards	<u>11,466</u>

2. Asset Management Revenue Account

This account shows the (deficit)/surplus arising from the capital charges made to the service accounts for the use of assets and the cost to the Council of financing these assets.

1999/2000		2000/01
£'000		£'000
4,056	Charge for Depreciation/Impairment	16,562
17,978	External Interest Payable	17,921
(21,526)	Capital Charges	(33,165)
(469)	Release of Government Grant	(488)
<u>39</u>	Net Expenditure / (Income)	<u>830</u>

3. Contributions to Capital Financing Reserve

This shows the amount of revenue resources used to finance capital expenditure during the year and the repayment of the principal instalment from the Loans Fund, offset by depreciation/impairment charges (net of Government Grants credit) and the amount of deferred charges written off to revenue.

1999/2000		2000/01
£'000		£'000
643	Capital Financed from Current Revenue - General Fund	134
9,205	Principal Loans Fund Instalment	9,667
(4,056)	Depreciation/Impairment	(16,562)
469	Deferred Charges Written off to Revenue	(3,341)
<u>6,261</u>	Release of Government Grant	488
	Total Contribution to Capital Financing Reserve	<u>(9,614)</u>

4. Operating Lease Rentals Paid

The Council uses land, buildings, vehicles, plant and equipment financed under the terms of an operating lease. The amount paid under these arrangements in 2000/01 are as follows:

1999/2000		2000/01
£'000		£'000
113	Land and Buildings	68
521	Vehicles	887
558	Plant and Equipment	395
<u>1,192</u>	Total	<u>1,350</u>

In respect of vehicles the Council recovered £0.121m of leased car costs from its employees during 2000/01.

The Council is committed to making payments of £1,148,000 under operating leases in 2001/2002. These can be analysed as follows:

	£'000
Leases expiring in 2001/02	109
Leases expiring between 2002/2003 and 2005/2006	527
Leases expiring after 2005/2006 onwards	512
Total	<u>1,148</u>

5. Local Government Act 1973, Section 83 Expenditure

The Council's expenditure under this statute, which is for the benefit of local residents, is limited to the product of £3.80 and the population of the Council's area. For 2000/01 that limit was £0.337m with expenditure of £0.324m being incurred and included within service expenditure. This expenditure covered the cost of Leisure Management Grants, Joint Twinning and the precautionary measures taken with regards to the national outbreak of foot and mouth disease.

6. Local Government Act 1986 - Separate Publicity Account

The Council is required under Section 5 of the Act to maintain a separate account for publicity. Expenditure of £0.404m was incurred during 2000/01 and is included within service expenditure as follows:

1999/2000		2000/01
£'000		£'000
181	Staff advertising	172
16	Leaflets and publications	21
60	Statutory notices	64
155	Other	147
<u>412</u>	Total	<u>404</u>

7. Agency Income

The Council has an agency agreement with Scottish Homes whereby the Council collects rents on their behalf and arranges for maintenance work to be carried out on their housing stock. In addition the Council has an agency agreement with the West of Scotland Water Authority to collect water and sewerage rates.

1999/2000		2000/01
£'000		£'000
1	Scottish Homes - collection of rents	1
3	Scottish Homes - repair of houses	1
161	West of Scotland Water Authority	161
<u>165</u>		<u>163</u>
-	Agency Expenditure	-
<u>165</u>		<u>163</u>

8. Local Authorities (Goods and Services) Act 1970

The Council is empowered by this Act to provide goods and services to other public bodies. Income from these services amounted to £4.624m and the related expenditure was £4.582m. The goods and services provided were as follows:

	Income	Expenditure
	£'000	£'000
Joint Finance and Resource Transfer	1,659	1,659
North Lanarkshire Council - Cleaning Outdoor Centre	73	66
Trunk Road Maintenance	2,445	2,428
Education - Provision of Special Needs	203	196
Strathclyde Police	106	99
Strathclyde Fire Brigade	127	125
Scottish Homes	6	5
Kirkcare	5	4
	<u>4,624</u>	<u>4,582</u>

9. Pensions - Local Government Superannuation (Scotland) Scheme

The Council participates in the Superannuation Fund administered by City of Glasgow Council's Strathclyde Pension Fund. This Fund provides members with defined benefits related to pay and service. The contributions are based on rates determined by the Fund's professionally qualified actuary and based on triennial valuations of the Fund, the most recent of which was at 31 March 1999 and set employers contributions as follows:

2000/01 - 200% of employees contributions
 2001/02 - 210% of employees contributions
 2002/03 - 220% of employees contributions

The value of assets of the scheme as at 31 March 1999 did not exceed 105% of the value of the liabilities of the scheme.

1999/2000		2000/01
£'000		£'000
3,240	Pension costs charged to the accounts (£)	4,055
10.20%	as a percentage of pensionable pay (%)	12.00%
16	Discretionary payments made by the council (£)	10
0.05%	as a percentage of pensionable pay (%)	0.029%
377	Expenditure on added years awarded (£)	-
1.19%	as a percentage of pensionable pay (%)	

The capital cost of discretionary increases in pensions payments agreed by the authority are: £'000

in the year	77
in earlier years	12,946

This includes both retirements from Argyll and Bute Council itself, and retirements from predecessor authorities for which Argyll and Bute Council is still making payments.

10. Teachers Pensions - Administered by Scottish Public Pensions Agency

1999/2000		2000/01
£'000		£'000
1,612	Amount paid over (£)	1,696
6.90%	Rate of contribution (%)	6.90%
441	Amount of added years awarded by the Council (£)	431
56	Discretionary payments made by the council (£)	-

11. Pensions - Accounting Policy

The accounting treatment followed by the Council is not in accordance with Standard Statement of Accounting Practice 24 (SSAP 24). Under SSAP 24 pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the Council benefits from the employees' services and spreading the effects of variations from regular cost over the expected average remaining service lives of members of the scheme. The Council does not have sufficient information available to it to disclose what the pension charge to operating costs would have been had SSAP 24 been adopted.

12. Members' Allowances

The total amount of members' allowances paid by the Council during the year were:

1999/2000		2000/01
£'000		£'000
192	Basic Allowance	195
176	Special Responsibility Allowance	190
368	Total Allowances	385

13. Officers' Emoluments

The number of employees whose remuneration, excluding pension contributions was £40,000 or more in bands of £10,000 were:

1999/2000			2000/01
No	Remuneration Band		No
30	£40,000 - £49,999		34
3	£50,000 - £59,999		2
6	£60,000 - £69,999		6
1	£70,000 - £79,999		1

14. Related Party Transactions

During the year transactions with related parties arose as follows:

	Income £'000	Expenditure £'000
Central Government and Agencies:		
Revenue Grants: Revenue Support Grant	75,852	
Non-domestic Rates	29,231	
Housing Benefits / Support Grant	13,100	
Council Tax Benefit Subsidy	4,523	
Other Government Grants	6,772	
Capital Grants: European Grants	111	
Sports Lottery	92	
Argyll and the Islands Enterprise	47	
Scottish Natural Heritage	6	
New Deal for Schools	600	
Other Government Capital Grants	347	
Related Bodies:		
Joint Boards (see note 1 for further details)		11,466
Strathclyde Passenger Transport - Concessionary Fares		727
Other Related Party Transactions:		
Companies in which members have a significant interest		88

During the year there were various companies in which members had a significant interest where the total of transactions exceeded £5,000, these are as follows:

	£'000
Islay Development Company	14
Oban FM	5
Scottish Milk Limited	5
Tiree Community Business Limited	13
Trident Taxis	42

15. Year 2000

The total cost of making all Council systems Year 2000 compliant was £0.528m. This expenditure was charged through the Council's capital programme during 1998/999, 1999/2000 and 2000/2001. The Council achieved a satisfactory state of readiness prior to 1 January 2000 and as a result the impact on systems due to the 'Millenium Bug' was minimal.

1999/2000		2000/2001	2000/2001
Actual		Actual	Budget
£'000		£'000	£'000
	Expenditure		
3,883	Repairs and Maintenance	4,502	3,984
3,553	Supervision and Management	3,647	3,732
5,227	Capital Financing Costs	4,953	5,003
307	Void House Rents	402	240
28	Bad Debt Write Off	-	-
24	Provision for bad or doubtful debts	137	-
114	Other expenditure	177	128
1,700	Contribution to Capital Financing Reserve	700	700
14,836	Total Expenditure	14,518	13,787
	Income		
13,212	Rent of houses (gross)	13,501	13,437
57	Non-dwelling rents	51	55
93	Housing Support Grant	93	93
368	Other income	490	185
13,730	Total Income	14,135	13,770
(1,106)	(Deficit) / Surplus for Year	(383)	(17)
3,298	Surplus Brought Forward	2,192	2,192
-	Interest Earned on Surplus Brought Forward	128	-
-	Contribution to General Fund	(364)	(364)
2,192	Surplus Retained in Housing Revenue Account	1,573	1,811

NOTES TO THE HOUSING REVENUE ACCOUNT

1. Gross Rent Income

This is the total rent income for the year. Average annual rent charges were £37.95 per week in 2000/01 (1999/2000 £36.45)

2. Housing Stock

1999/2000		2000/01
No		No
182	Sheltered Housing	198
3,592	Other houses	3,556
1,658	Tenement flats	1,664
1,453	Other flats	1,330
6,885	Total Housing Stock	6,748

3. Rent Arrears and Bad Debts

Rent arrears at 31/3/2001 were £0.472m (31/3/2000 - £0.322m) and this equated to an average rent arrears per house of £70 (1999/2000 - £47)

In accordance with the latest assessment of potential recovery and in order to reflect due prudence, the provision for bad debts has been adjusted to £0.272m (1999/2000 - £0.144m), this represents an increase of £0.128m.

1999/2000 (Surplus) Deficit Actual £'000		2000/01		
		Turnover Actual £'000	Total	(Surplus)
			Expenditure	Deficit
			Actual £'000	Actual £'000
	DLO			
(95)	Property Maintenance	3,148	3,125	(23)
(4)	Roads - Local	8,015	7,878	(137)
(40)	Roads - Trunk	2,445	2,428	(17)
	DSO			
(37)	Vehicle Maintenance	1,732	1,586	(146)
(6)	Ground Maintenance	2,533	2,515	(18)
(2)	Street Cleansing	865	858	(7)
(51)	Refuse Collection	1,442	1,426	(16)
-	Leisure Management	750	743	(7)
(42)	Catering	2,433	2,427	(6)
(3)	Cleaning	1,247	1,235	(12)
(280)	TOTAL	24,810	24,221	(389)

Appropriation Account

	Deficit (Surplus) £'000	Transfer to General Fund £'000	Transfer to Reserve Fund £'000	Balance 31/3/01 £'000
2000/01	(389)	389	-	-

NOTES TO THE SUMMARY DLO/DSO REVENUE AND APPROPRIATION ACCOUNT

1. Further information

The detailed accounts for the Direct Labour and Direct Services Organisations are contained in a separate Annual Report, which is published in accordance with the appropriate legislation and is available on request from Council Headquarters.

2. Statutory Financial Objectives

The statutory financial objective for all DSO's and DLO's is to break-even-after applying the CIPFA Code of Practice on Capital Accounting. All Direct Labour and Direct Service Organisations have achieved the statutory financial objective.

Shows the net income raised from council taxes levied under the Local Government Finance Act 1992.

1999/2000		2000/01
Actual		Actual
£'000		£'000
38,312	Gross Council Tax levied and contributions in lieu	41,443
	Less:	
(252)	Council Tax benefits (net of government grant)	(183)
(6,626)	Other discounts and reductions	(7,087)
(782)	Provision for bad and doubtful debts	(1,189)
30,652	Net Council Tax Income	32,984

NOTES TO THE COUNCIL TAX INCOME ACCOUNT

1. Calculation of the Council Tax

Dwellings are valued by the Assessor and placed within a valuation band ranging from the lowest "A" to the highest "H". The Council Tax charge is calculated using the Council Tax Base, ie. Band D equivalents as below. This value is then decreased or increased dependant upon the band of the dwelling. The charge for each band for 2000/01 was as follows:

Band	Valuation Band	% Band D	£ per year
A	Under £27,000	67%	£ 625.33
B	£27,000 - £35,000	78%	£ 729.56
C	£35,000 - £45,000	89%	£ 833.78
D	£45,000 - £58,000	100%	£ 938.00
E	£58,000 - £80,000	122%	£1,146.44
F	£80,000 - £106,000	144%	£1,354.89
G	£106,000 - £212,000	167%	£1,563.33
H	Over £212,000	200%	£1,876.00

NOTES TO THE COUNCIL TAX INCOME ACCOUNT - Continued

2. Calculation of the Council Tax Base 2000/01

Council Tax Base	A	B	C	D	E	F	G	H	Total
Total Number of Properties	8,098	9,372	9,278	5,358	6,438	3,286	2,156	205	44,171
Less Exemptions / Deductions	891	619	1,264	397	518	162	93	28	3,972
Adjustment for Single Chargepayers	915	955	692	382	315	127	73	7	3,466
Effective Number of Properties	6,292	7,798	7,322	4,579	5,605	2,977	1,990	170	36,733
Band D Equivalent Factor (ratio)	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
Band D Equivalent Number of Properties	4,195	6,065	6,508	4,579	6,851	4,300	3,317	340	36,155
Add Contribution in lieu in respect of Class 18 dwellings (Band D Equivalent)									750
Nominal Tax Yield									36,905
Less Provision for Non-Collection - 5.4%									1,993
Council Tax Base 2000/01 - Number of Band D equivalents									34,912

Shows the income from the rate levied under the Local Government (Scotland) Act 1975 as amended by the Local Government Finance Act 1992 on non-domestic property.

1999/2000		2000/01
Actual		Actual
£'000		£'000
30,636	Gross rates levied and contributions in lieu	33,286
	Less:	
(3,998)	Reliefs and other deductions	(5,867)
16	Payment of interest	(19)
(230)	Provision for bad and doubtful debts	(420)
<u>26,424</u>	Net Non-domestic Rate Income	<u>26,980</u>
8	Adjustments for years prior to introduction of national non-domestic rates pool	10
(960)	Contribution from / (to) national non-domestic rate pool	2,241
<u>25,472</u>	Guaranteed Rate Income	<u>29,231</u>

NOTES TO THE NON-DOMESTIC RATE INCOME ACCOUNT

1. Analysis of Rateable Values

1999/2000		2000/01
£		£
2,902,925	Industrial and freight transport subjects	3,409,660
31,683,788	Public utilities including British Rail, British Gas, Hydro Electric etc	33,258,234
	Commercial subjects:	
6,280,645	Shops	9,680,920
3,783,285	Offices	4,555,835
5,343,005	Hotels, Boarding Houses etc.	6,819,895
4,421,665	Others	5,596,495
8,284,462	Miscellaneous and formula valued subjects	7,298
<u>64,699,775</u>	Total Rateable Value	<u>63,328,337</u>

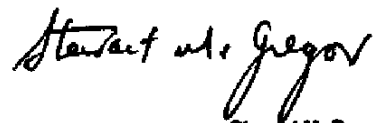
2. Non-Domestic Rate Charge

1999/2000		2000/01
Pence		Pence
48.0p	Rate Per Pound Properties under £10,000	44.8p
48.8p	Rate Per Pound Properties over £10,000	45.8p

3. Calculation of Rate Charge for Each Property

The rates charge for each subject is determined by the rateable value placed upon it by the Assessor multiplied by the Rate per £ announced each year by the Government.

1999/2000 £'000		Note	2000/01 £'000
	Fixed Assets	1	
	Operational Assets		
62,364	- Council Dwellings		63,290
152,755	- Other Land and Buildings		156,013
4,233	- Vehicles, Plant and Equipment		3,988
59,384	- Infrastructure Assets		59,868
28	- Community Assets		60
	Non-operational Assets		
10,279	- Non-operational Land and Buildings		15,494
289,043			298,713
43,561	Deferred Charges	2	-
1,347	Long Term Debtors		9,065
333,951	Total Long Term Assets		307,778
	Current Assets		
1,158	- Stock and Work in Progress		1,178
14,835	- Debtors	5	9,946
795	- Cash at Bank and in Hand		1,885
350,739			320,787
	Current Liabilities		
(29,765)	- Short Term Borrowing	6	(1,095)
(15,389)	- Creditors		(27,352)
(2,315)	- Bank Overdraft		(2,891)
303,270	Total Assets less Current Liabilities		289,449
(184,996)	Long Term Borrowing	6	(207,659)
(479)	Deferred Covenant Liability		(399)
(11,215)	Deferred Government Grants	7	(11,113)
108,580	Total Assets less Liabilities		70,278
60,836	Fixed Asset Restatement Reserve		74,895
39,748	Capital Financing Reserve		(9,278)
3,369	Earmarked Reserves		2,895
	Balances		
332	- General Fund		85
2,192	- Housing Revenue Account		1,573
103	- DSOs		108
106,580	Total Equity		70,278



Stewart McGregor
Director of Finance
20 September, 2001

1.1 Movement of Fixed Assets

	Operational Assets						Total 1999/2000	Total 1999/2000
	Council	Other Land	Vehicles	Infrastructure	Community	Non-		
	Dwellings	and	Plant &	Assets	Assets	Operational		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1/4/00	62,364	152,755	4,233	59,384	28	10,279	289,043	290,588
Expenditure in year	2,966	4,357	1,000	3,582	32	236	12,173	13,492
Revaluations	4,160	9,092				6,803	20,055	(465)
Disposals	(1,156)		(38)	(19)		(483)	(1,696)	(2,072)
Transfers		1,341				(1,341)		(359)
Depreciation	(2,076)	(3,923)	(1,207)	(2,772)			(9,980)	(4,056)
Impairment		(6,582)					(6,582)	
Write off to FARR	(2,966)	(1,027)		(307)			(4,300)	(8,085)
Balance at 31/3/01	63,290	156,013	3,988	59,868	60	15,494	298,713	289,043

1.2 Valuation of Fixed Assets

	Council	Other Land	Vehicles	Infrastructure	Community	Non-	Total
	Dwellings	and	Plant &	Assets	Assets	Operational	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Valued at historical cost			3,988	59,868	60		63,916
Valued at current value in:							
2000/2001	63,290	35,648				8,868	107,806
1999/2000		84,773				3,416	88,189
1998/1999							-
1997/1998							-
1996/1997							-
Valuations inherited at 1 April 1996		35,592				3,210	38,802
Total	63,290	156,013	3,988	59,868	60	15,494	298,713

In accordance with the Capital Accounting Code of Practice, fixed assets are shown at valuation. The basis on which each category of fixed asset is valued is as follows:

Council Dwellings

The basis of valuation is Existing Use Value for Social Housing as defined in Practice Statement 4.1 of the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual, the definition of which is as follows:

"Existing Use Value for Social Housing is defined as an opinion of the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of the valuation."

The valuations were carried out as at 31 March 2001 by an independent valuer, the District Valuer, on the aforementioned basis.

Other Land and Buildings

The basis of valuation is Open Market Value for Existing Use, assessed on either a comparative or depreciated replacement cost basis.

During the current year, revaluations were carried out by the Estates Section of Transportation and Property in accordance with their rolling programme of revaluations. This included revaluations of all schools not revalued during 1999/2000. This programme will continue during 2001/2002.

Vehicles, Plant and Equipment

These assets have been valued using historical cost as a proxy for current replacement cost.

Infrastructure and Community Assets

These assets are valued at depreciated historic cost.

Non Operational Assets

These have been valued on the basis of open market value taking account of existing and alternative uses.

During the current year, revaluations were carried out by the Estates Section of Transportation and Property, on 80 non-operational properties, in accordance with their rolling programme of revaluations. This programme will continue during 2001/2002.

1.3 Fixed Assets Information on Assets Held at 31/3/01

	2000/01		2000/01
OPERATIONAL BUILDINGS	No.	OPERATIONAL EQUIPMENT	No.
Administrative Buildings	38	Vehicles and Heavy Plant	347
Depots	32		
Social Work Homes for the Elderly	6	INFRASTRUCTURE ASSETS	
Social Work Children's Homes	4	Highways (miles)	1,406
Social Work Hostels	3	Bridges	954
Primary Schools	81		
Secondary Schools	10	COMMUNITY ASSETS	
Special Schools	3	Play Areas	52
Nursery Schools	3	Parks	25
Halls	10	Civic Regalia (Provosts' Chains)	4
Sports Centres	1	Civic Regalia (Baillies' Chains)	1
Swimming Pools	3	Cemeteries	66
Museums and Libraries	10		
Community Centres	8	COUNCIL DWELLINGS	6,748
Crematoria	1		
Public Conveniences	69		
Travelling Persons Sites	3		

2. Deferred Charges

	Balance at 1/4/00 £'000	Write off Opening Bal £'000	Expenditure during year £'000	Receipts during year £'000	Capital Discharged £'000	Balance at 31/3/01 £'000
Improvement Grants	34,789	(34,789)	-	-	-	-
Slum Clearance	389	(389)	-	-	-	-
Other	8,383	(8,383)	-	-	-	-
Total	43,561	(43,561)	-	-	-	-
Total 1999/2000	42,218	-	2,942	-	(1,599)	43,561

3. Spending on Capital Projects During the Year

Capital expenditure involves the creation of assets, the benefit of which will be available to future rate and council taxpayers. It is financed from borrowing and therefore the cost of the assets is effectively borne over a period of years. In 2000/01 gross capital expenditure totalled £16.012m, offset by capital income of £3.516m, as follows:

	31 March 2001 £'000	31 March 2000 £'000
Education Services	2,574	3,496
Development and Environment Services	1,976	2,043
Social and Housing Services	3,485	3,244
Housing Revenue Account	3,175	4,178
Transportation and Property Services	3,459	2,448
Central Support	1,343	1,078
Total Expenditure	16,012	16,487
Financed by:		
Sale of Council Houses	689	743
Sale of Other Assets	612	305
Grants	1,203	1,129
Other Capital Receipts	178	414
Capital from Current Revenue	834	2,343
Borrowing	12,496	11,553
Total Financing	16,012	16,487

4. Assets Held Under Finance Leases

There were no assets held under finance leases during the year.

		2000/2001	1999/2000
		£'000	£'000
5. Debtors			
Arrears of Local Taxation	Council Tax	11,324	10,221
	less: provision for bad debts	(9,256)	(7,842)
		2,068	2,379
	Community Charge	8,060	8,270
	less: provision for bad debts	(8,016)	(8,226)
		44	44
	Non-domestic Rates	2,434	2,516
	less: provision for bad debts	(1,972)	(1,853)
		462	663
House Rents		373	202
less: provision for bad debts		(272)	(144)
		101	58
Debtor Accounts		3,866	4,228
less: provision for bad debts		(813)	(1,015)
		3,053	3,213
Government Grants			3,895
VAT Recoverable		1,417	1,789
Other Debtors		2,801	2,794
Total Debtors		9,946	14,835

6. Analysis of Borrowing

6.1 Source of Loan

	31 March 2001 £'000	31 March 2000 £'000
Public Works Loan Board	187,819	185,910
Money Market	18,500	26,026
EIB	2,164	2,590
Other Loans	271	235
Total Outstanding Loans	208,754	214,761

6.2 Maturity of Loans

	31 March 2001 £'000	31 March 2000 £'000
Borrowings repayable on demand or within 12 months	1,095	29,765
Borrowings repayable on demand or within 12 months	1,095	29,765
1 - 2 years	1,292	1,048
2 - 5 years	2,714	3,959
6 - 10 years	1,409	16,291
Over 10 years	202,244	163,698
Total Long and Medium Term Loans	207,659	184,996
Total Outstanding Loans	208,754	214,761

7. Deferred Government Grants	£'000
Balance at 1 April 2000	11,215
Grants received during the year to finance capital projects	386
Credit to revenue account during the year	(488)
Balance at 31 March 2001	11,113

	As at 31 March 2001			Total £'000
	General Fund £'000	HRA £'000	DSO/DLO's £'000	
Assets				
Fixed Assets	235,423	63,290	-	298,713
Deferred Charges	-	-	-	-
Long Term Debtors	9,065	-	-	9,065
Stock and Work in Progress	199	-	979	1,178
Debtors	9,700	193	53	9,946
Cash at Bank and in Hand	1,885	-	-	1,885
Liabilities				
Short Term Borrowing	(1,139)	25	19	(1,095)
Creditors	(23,491)	(1,595)	(2,266)	(27,352)
Bank Overdraft	(2,891)	-	-	(2,891)
Long Term Borrowing	(161,934)	(45,652)	(73)	(207,659)
Deferred Covenant Liability	(399)	-	-	(399)
Government Grants Deferred	(11,113)	-	-	(11,113)
Total Net Assets Employed	55,305	16,261	(1,268)	70,278

9. Insurance Fund

An Insurance Fund has been established in accordance with the Local Government (Scotland) Act 1994. The balance at 31 March 2001 was £1.234m (1999/2000 - £1.178m). The fund represents contributions made from the General Fund and does not yet cover specific uninsured risks.

10. Contingent Gains and Liabilities

The Council has inherited a number of applications for equal pay at various stages of completion at Industrial Tribunals. The final outcome of these applications is unknown at this time, although there is the possibility that the Council may lose at least some of these cases. No financial provision has been made in the 2000/2001 Accounts given the uncertainties which surround both the final outcomes and the settlement levels.

The Council has entered into a Public Private Partnership with Shanks Group PLC for the waste management of landfill sites. Under this agreement, the Council retains an element of residual responsibility in respect of specific environmental rectification which may be necessary in certain circumstances. The Council is of the view that any future liabilities arising from these circumstances should be covered by grants funding.

11. Provisions

Liabilities have continued to arise in respect of the former Strathclyde Regional Council's operations. Cost sharing arrangements are in place with the other eleven authorities which make up the former Strathclyde Region. Argyll and Bute Council's share of liabilities which materialise in the future will be approximately 4%. At present, potential liabilities in respect of insurance claims and various legal actions could cost the Council £0.332m. Full provision for this amount has been made.

A provision in respect of insurance claims and various legal actions from the former Strathclyde Regional Council was set up during the 1999/2000 financial year, this was adjusted during 2000/01 to reflect the overall movement in the claims position during the year. This provision complies with the requirements of FRS 12 (Financial Reporting Standard 12 - Provisions, Contingent Liabilities and Contingent Assets) and meets the following criteria:

- There is a present obligation (legal or constructive) as a result of a past event;
- It is probable that a transfer of economic benefit will be required to settle the obligation; and
- A reliable estimate can be made of the obligation.

Opening Balance	£'000 (364)
Movement in the Year	32
Closing Balance	(332)

12. Commitments Under Capital Contracts

At 31 March 2001, the Council had commitments on capital contracts of £8.272m. This expenditure will be funded from: a combination of government capital consent (borrowing), income from selling assets and contributions from Revenue Accounts.

	£'000
Administration Buildings and Equipment	494
Information Technology	124
Development and Environment Services	984
Education	2,476
Social Work	279
Roads	1,080
Housing	2,436
Flood Prevention	292
Miscellaneous	107
	8,272

13. The Castle Trust

Argyll and Bute Council, East Renfrewshire Council and Glasgow City Council have entered a joint venture to operate the two educational outdoor centres at Ardentiny and Castle Toward.

14. Trust Funds and Other Third Party Funds

The Council acts as sole or custodian trustee for 76 trust funds and 6 common good funds. In neither case do the funds represent assets of the Council, and as such have not been included in the Consolidated Balance Sheet. The funds have not been subject to an independent audit.

Funds for which Argyll and Bute Council act as sole trustee:

	Income £'000	Expenditure £'000	Assets £'000	Liabilities £'000
Campbeltown Common Good Fund	33	19	426	426
Oban Common Good Fund	58	44	730	730
Inveraray Common Good Fund	-	-	1	1
Lochgilphead Common Good Fund	-	-	5	5
Dunoon Common Good Fund	-	-	8	8
Rothesay Common Good Fund	7	2	98	98
Argyll Education Trust	18	9	193	193
GM Duncan Trust	4	5	72	72
McDougall Trust	24	8	426	426
Moore's Mortification Fund	5	-	100	100
Various Other Trust Funds	22	3	357	357
Total Trust Funds	171	90	2,416	2,416

Purpose of Common Good Funds:

These funds are held for the benefit of residents of the former Burghs within Argyll and Bute.

Purpose of Trust Funds:

GM Duncan Trust: for the provision of fuel, clothing and foodstuffs for the needy of Campbeltown. McDougall Trust: for the provision of sheltered housing on the Ross of Mull. Moore's Mortification Fund: to provide benefits to the needy of that part of the Parish of Cardross lying between Auchentroe and Keppoch. Argyll Education Trust: this is made up of a number of small trusts to award prizes, bursaries, etc. to pupils and ex pupils of schools within the former Argyll County Council area. Further information on the Common Good and Trust Funds, administered by Argyll and Bute Council, can be obtained from the Treasury Section of the Finance Department.

15. European Monetary Union

As at 31 March 2001, the Council had incurred no expenditure and had made no commitments in respect of the costs associated with the introduction of the Euro. Prior to entry into full Euro trading, a significant review of all systems will require to be undertaken. Consequently an estimate of costs is not available at this stage.

	CAPITAL RESERVES			REVENUE RESERVES			Total £'000
	Fixed Asset	Capital	Earmarked	General	Housing	DLO/DSO	
	Restatement	Financing	Reserves	Fund	Revenue	Account	
	Reserve	Reserve					
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 April 2000	60,836	39,746	3,369	332	2,192	103	106,580
Net surplus/(deficit) for year				(611)	(383)	389	(605)
Unrealised (gains)/loss, from revaluation of fixed assets	20,055						20,055
Interest			194		128	5	327
Contribution (to) / from General Fund		(9,614)	89	364	(364)	(389)	(9,914)
Contribution (to) / from HRA		700					700
Capital Discharged on House Loans		(111)					(111)
Net Book Value of assets disposed of	(1,696)						(1,696)
Capital Receipts Applied		3,561					3,561
Expenditure			(757)				(757)
Write off Deferred Charges at 1 April 2000		(43,562)					(43,562)
Expenditure not through Fixed Asset Register	(4,300)						(4,300)
Balance at 31 March 2001	74,895	(9,278)	2,895	85	1,573	108	70,278

NOTES TO THE STATEMENT OF MOVEMENT OF RESERVES
1. Fixed Asset Restatement Reserve

This reserve reflects the difference between the book value of assets prior to the implementation of the new system of Capital Accounting and the revalued amounts. Any subsequent revaluations are also recorded here. It is not a revaluation reserve and does not represent resources available to the authority. It cannot be used in any way to finance revenue or capital expenditure and can only be reduced by either writing out the book value of assets or a downward revaluation.

2. Capital Financing Reserve

The Capital Financing Reserve contains the amounts which are required by statute to be set aside from capital receipts for the repayment of external loans as well as the amount of capital expenditure financed from revenue and capital receipts. It also contains the difference between amounts provided for depreciation and that required to be charged to revenue to repay the principal element of external loans. As with the Fixed Asset Restatement Reserve it does not represent resources available to the authority.

3. Earmarked Reserves

	Balance at	Contributions	Appropriation		Balance at
	1 April 2000		Interest	to CRA	31 March 2001
	£'000	£'000	£'000	£'000	£'000
Education Reserves	353	89	19	(119)	342
Repairs and Renewals - Vehicles	552		32		584
Repairs and Renewals - General	1,205		70	(626)	649
Insurance Fund	1,178		68	(12)	1,234
DLO Capital Fund	81		5		86
Total Earmarked Reserves	3,369	89	194	(757)	2,895

4. Revenue Reserves

Revenue reserves are made up of the annual movements in the Consolidated Revenue Account, Housing Revenue Account and the DSO/DLO Appropriation Account. The Housing Revenue Account reserves carried forward are ring-fenced and as such can only be used for the benefit of Council House Tenants. Revenue reserves can be used to meet both capital and revenue expenditure.

1999/2000		Note	2000/01
Actual	REVENUE ACTIVITIES		Actual
£'000	Cash outflows		£'000
83,742	Cash Paid for and on Behalf of Employees		87,151
74,076	Other Operating Cash Payments		65,866
4,757	Housing Benefit Paid Out		6,460
1,804	National Non-domestic Rate Payments to National Pool		
164,379	Total Cash Outflows		159,477
	Cash inflows		
6,672	Rents (after rebates)		6,949
26,094	Council Tax Income		28,717
25,424	Non-domestic Rate Receipts		30,014
314	Community Charge		191
76,818	Revenue Support Grant		75,852
16,734	DSS Grants for Benefits		17,531
5,107	Other Government Grants	1	6,865
19,630	Cash Received for Goods and Services		16,291
	National Non-domestic Rate Receipts from National Pool		7,393
5,058	Other Operating Cash Receipts		5,536
181,851	Total Cash Inflows		195,339
17,472	Net Cash Inflow / (Outflow) From Revenue Activities	2	35,862
	SERVICING OF FINANCE		
	Cash outflows		
16,760	Interest paid		22,561
16,760	Total Cash Outflows		22,561
	Cash inflows		
41	Interest received		107
41	Total Cash Inflows		107
(16,719)	Net Cash Inflow / (Outflow) From Servicing of Finance		(22,454)
	CAPITAL ACTIVITIES		
	Cash outflows		
3,814	Purchase of Fixed Assets		5,525
8,800	Other Capital Cash Payments		5,456
12,614	Total Cash Outflows		10,981
	Cash inflows		
2,954	Sale of Fixed Assets		2,959
1,025	Capital Grants Received		1,008
878	Other Capital Cash Receipts		127
4,857	Total Cash Inflows		4,094
(7,757)	Cash Inflow (Outflow) From Capital		(6,887)
(7,004)	Net Cash Inflow / (Outflow) Before Financing		6,521
	FINANCING		
	Cash outflows		
183,783	Repayments of Amounts Borrowed		101,470
183,783	Total Cash Outflows		101,470
	Cash inflows		
190,533	New Loans Raised		95,463
190,533	Total Cash Inflows		95,463
6,750	Net Cash Inflow / (Outflow) From Financing		(6,007)
(254)	(Decrease) / Increase in Cash and Cash Equivalents	3	514

1. Other Government Grants

1999/2000 £'000		2000/01 £'000
211	Housing Support Grant	93
239	Rural Transport Grant	253
2,094	Pre School Education Grants	2,475
258	Gaelic Education Grants	258
2,160	Other Educational Grants (e.g. Excellence Fund)	3,540
145	Other Grants (e.g. Civil Defence)	246
5,107	Total "Other Government Grants"	6,865

2. Net Cash Flow Reconciliation

1999/2000 £'000		2000/01 £'000
(1,764)	Surplus/(Deficit) for Year	(611)
(1,106)	Add back: Transfer to HRA Balance	(383)
(2,870)		(994)
257	Movements in Reserves	(469)
22,926	Adjustments Not Involving Movement in Funds	21,786
492	(Increase)/Decrease in Stocks	(20)
(774)	(Increase)/Decrease in Debtors	4,937
(4,259)	Increase/(Decrease in Creditors)	10,622
15,772	Revenue Activities Net Cash Flow	35,862

3. Analysis of Net Debt

	As at 31 March 2001 £'000	As at 1 April 2000 £'000	Cash Flow £'000
Cash at Bank and in Hand	1,885	795	1,090
Bank Overdraft	(2,891)	(2,315)	(576)
Increase in Cash and Cash Equivalents	(1,006)	(1,520)	514
Debt due within one year	(1,096)	(29,765)	28,670
Debt due after one year	(207,659)	(184,996)	(22,663)
Total Debt	(208,754)	(214,761)	6,007
Total	(209,760)	(216,281)	6,521

4. Reconciliation of Movement in Cash to Net Debt

1999/2000 £'000		2000/01 £'000
(254)	Increase / (Decrease) in Cash in Period	514
(6,750)	Increase / (Decrease) in Debt Financing	6,007
(7,004)	Movement in Debt in Period	6,521
(209,277)	Net Debt as at 1 April 2000	(216,281)
(216,281)	Net Debt as at 1 April 2001	(209,760)

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AUDIT CERTIFICATE TO THE MEMBERS OF ARGYLL AND BUTE COUNCIL AND THE ACCOUNTS COMMISSION FOR SCOTLAND

1. As auditors, appointed under statute by the Accounts Commission for Scotland, we have audited the accounts of Argyll and Bute Council for the year ended 31 March 2001, an abstract of which is set out on pages 5 to 26.

Respective responsibilities of management and auditors in relation to the accounts


2. As stated on page 5, the management of Argyll and Bute Council is responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on the abstract of accounts and to report that opinion to you.

Basis of opinion

3. We have conducted our audit in accordance with the requirements of Part VII of the Local Government (Scotland) Act 1973 and of the Code of Audit Practice approved by the Commission. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by management in the preparation of the accounts and of whether the accounting policies are appropriate to Argyll and Bute Council's circumstances, consistently applied and adequately disclosed.
4. We planned and performed our audit of the accounts so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

5. In our opinion, the abstract of accounts presents fairly, in accordance with the accounting policies set out on pages 6 to 7, the financial position of Argyll and Bute Council as at 31 March 2001 and its income and expenditure for the year then ended.



PricewaterhouseCoopers
 Chartered Accountants and Registered Auditors
 Glasgow
 20 September 2001

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ARGYLL & BUTE COUNCIL



FINAL REPORT TO MEMBERS 2000/2001

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The Controller of Audit
Accounts Commission for Scotland
18 George Street
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20 September 2001

Ladies and Gentlemen

Final Report to Members 2000/2001

We have completed our audit of Argyll & Bute Council (the "Council") accounts for the year ended 31 March 2001.

The Final Report is primarily designed to direct your attention to matters of significance that have arisen out of the 2000/2001 audit process and to confirm what action has been agreed with management to address the areas of concern which have been identified.

Our statutory duties as your external auditor are contained within the Local Government (Scotland) Act 1973 as amended by the NHS and Community Care Act 1990. These duties and the responsibilities which are derived from them are contained in greater detail within the Code of Audit Practice which has been approved and issued by the Accounts Commission for Scotland. Section 1 and Appendix 2 of the report outline our key responsibilities and the responsibilities of management in this regard.

The matters dealt with in this Final Report came to our notice during the conduct of our normal audit procedures, which we carried out in accordance with the framework and principles embodied within the Code. It is emphasised that the Final Report should not be interpreted as providing legal or other advice to the Council or any other party.

We would like to take this opportunity to offer our thanks to those members of management and staff who have assisted us during the course of the audit.

Yours faithfully


PricewaterhouseCoopers

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Appendix 1 - Action Plan

Appendix 2 - Responsibilities of Management and the Auditor

Appendix 3 - Other reports submitted during the 2000/2001 process

Appendix 4 - Audit Certificate placed on the Council's Annual Accounts

EXECUTIVE SUMMARY

The Final Report is designed to direct your attention to matters of significance that have arisen out of the 2000/2001 audit process and to confirm action agreed with management to address any areas of concern which have been identified. **It is important that members consider the detailed comments within the Report and do not rely solely on the Executive Summary.**

EXECUTIVE SUMMARY	PAGE
Audit Opinions	
<ul style="list-style-type: none"> • Our certificate on the Council's financial statements for the year ended 31 March 2001 is unqualified. 	6
<ul style="list-style-type: none"> • We note that all DLO/DSO operations have achieved the financial objective of break even. 	6
Financial Statements	
<ul style="list-style-type: none"> • The outturn on the Consolidated Revenue Account was a deficit for the year of £611,000 and, in addition, the Council transferred £364,000 from the Housing Revenue Account Reserves and utilised a substantial proportion of brought forward General Fund Reserves to cover the deficit. As a result, an accumulated surplus of £85,000 is being carried forward to 2001/02. 	7
<ul style="list-style-type: none"> • We note that a number of variances arising were not evident until fairly late in the financial year and we understand that the Council is currently undertaking an overall review of the individual service department budget setting and budget monitoring processes. Effective budgetary control procedures will become even more important in 2001/02 in view of the small level of general fund surplus carried forward and available to offset against any potential future overspends. 	8
<ul style="list-style-type: none"> • The financial statements and supporting schedules were presented to us for audit within the agreed timetable and were appropriate in terms of clarity and completeness. As in previous years, we have continued to note an improvement in the working papers provided to us by the Council during the course of the audit. This year we are particularly pleased to note that detailed plans were prepared by the finance department which assisted in the timely preparation of the accounts and our audit. 	10

EXECUTIVE SUMMARY (CONTINUED)

EXECUTIVE SUMMARY	PAGE
Financial Statements (Continued)	
<ul style="list-style-type: none"> • The Council identified two asset impairments, in accordance with FRS 11 "Impairment of Fixed Assets and Goodwill". These related to: <ul style="list-style-type: none"> – Hermitage Academy, where the carrying value was reduced by £6.1 million; and – Campbeltown Swimming Pool, where the carrying value was reduced by £0.5 million. <p>We are satisfied that these reductions in value are in compliance with accounting standards.</p> 	10
<ul style="list-style-type: none"> • In 1999/2000 we reported that the Council had appointed Envirospine Aspinwall to perform a specialist valuation of the waste management landfill sites as part of the Public Private Partnership ("PPP") proposal. At that time they identified that significant costs would be required to be incurred to bring the sites up to required environmental standards. While the current estimate of these environmental improvement costs remain significant, the liability for the costs has largely been transferred to the PPP contractor who will assume responsibility for these sites, under the terms of an agreement signed in September 2001. As the liability is no longer likely to be met by the Council, no provision for these environmental clean up costs has been made in the Council's accounts. Under the PPP arrangement, the Council retains an element of residual responsibility in respect of specific environmental rectification which may be necessary in certain circumstances. Management believe that such costs as may arise will be met by grant funding and the matter is disclosed as a contingent liability in the notes to the accounts. • Further details of our findings arising from work on the financial statements are included within Section III. 	11
Financial Systems and Internal Control Environment	
<ul style="list-style-type: none"> • During 2000/2001 we have issued two Interim Management Letters which contained a number of control matters for attention of management. • In addition to these letters, we have specifically reviewed the Council's arrangements in respect of internal audit, budget setting and control and reconciliation arrangements during the year. Further details arising from our work on systems are detailed in Section IV. 	16

EXECUTIVE SUMMARY (CONTINUED)

EXECUTIVE SUMMARY	PAGE
<p>Best Value</p> <ul style="list-style-type: none"> • Our Best Value programme comprised reviewing the Performance Management and Planning framework of the following services : <ul style="list-style-type: none"> – Personnel Department - Health and Safety; – Transportation and Property Services Department - Transport Services; and, – Corporate and Legal - Registration Services. • Findings relating to these reviews are included in Section V. 	22
<p>Value for Money</p> <ul style="list-style-type: none"> • The following value for money studies were undertaken during the year : <ul style="list-style-type: none"> – Review of internal audit, and; – Education Property Risk Management • Findings relating to these reviews are included in Section VI. 	25
<p>Performance Indicators</p> <ul style="list-style-type: none"> • We have considered and reported upon the general standard of the Council's arrangements for collecting and reporting statutory performance indicators. A number of indicators in the following areas did not meet the specified requirements: <ul style="list-style-type: none"> – Benefits administration - Gross administration costs; – Benefits administration - Applicants processed within required time; – Housing - Response repairs; – Libraries - Stock turnover; – Libraries - Use of libraries; – Roads and Lighting - Traffic light repairs response; – Roads and Lighting - Street light repairs response; – Social Work - Respite Care; – Social Work - Criminal Justice - Social inquiry reports; – Social Work - Criminal Justice - Probation; and – Social Work - Criminal Justice - Community Service. • Management should take corrective action to ensure that these indicators meet the specified requirements in future years. • Our overall findings are included in Section VII. 	30

EXECUTIVE SUMMARY (CONTINUED)

EXECUTIVE SUMMARY	PAGE
<p>Legal Matters</p> <ul style="list-style-type: none"> • Through discussions with management, reviewing Council minutes and noting the role of the Monitoring Officer, we have endeavoured to keep under review the legality of transactions or events that have a significant financial consequence. • The Council's Public Private Partnership with Shanks Group plc for waste management within Argyll and Bute was signed in September 2001. The Council has received an opinion from independent financial advisers that the PPP transaction can be accounted for off balance sheet. As part of our audit work we have reviewed this opinion and concur that it appears appropriate. • Findings relating to our review of legal matters are included in Section VII. <p>Conclusion</p> <ul style="list-style-type: none"> • Matters raised in this Final Report have been discussed previously with executive management. Our two Interim Management Letters and this Final Report to Members are supported with management action plans and we recommend that these should be monitored formally by Management and by Members through the new Audit Committee process to ensure that agreed action will be implemented within the agreed timescales. 	<p>32</p>

SECTION I - PUBLIC SECTOR AUDIT**The Nature of Public Sector Audit**

- 1.01 It is generally acknowledged that Public Sector Audit involves a wider public interest dimension to the audit of public funds. There is therefore a reasonable public expectation that the Council expends its funds only for duly authorised purposes, there is a high standard of probity and resources are applied to best effect.
- 1.02
- These matters are reflected in the areas of audit focus which are outlined in the Accounts Commission's Code of Audit Practice (The Code). This includes the need for a public sector auditor to place an audit certificate on the financial statements (Section II of this report) and to consider the adequacy of the Council's internal financial controls (Section III), as well as considering the arrangements the Council has in place for:
 - The implementation of a Best Value ethos throughout the Council's operations (Section IV);
 - The collection, recording and publishing of prescribed performance data (Section V);
 - Securing economy, efficiency, and effectiveness in its use of resources (Section VI); and
 - Ensuring the legality of significant transactions or events with a financial consequence.
- 1.03 Within Appendix 2, we have noted in greater detail the respective duties of management and external audit in relation to the areas of audit focus noted above.

SECTION II – AUDIT OPINIONS**Accounting Code of Practice**

- 2.01 Under the terms of our appointment as auditors to the Council we are required to issue two specific audit opinions.

Audit Certificate on the Annual Accounts

- 2.02 The Local Government (Scotland) Act 1973 requires that, following the completion of an audit, the auditors shall place on the abstract of accounts a certificate which sets out the basis on which they have formed their audit opinion.

- 2.03 This is our opinion on the accounts which states :

- that the audit has been conducted in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Code of Audit Practice;
- the respective responsibility of management and auditors in relation to the accounts; and
- whether, in our opinion, the accounts present fairly the financial position of the Council as at 31 March 2001.

- 2.04 **Our audit certificate for the year ended 31 March 2001, which is in the format prescribed by the Accounts Commission, is unqualified.**

Audit Certificate on the Annual Accounts of the DLOs/DSOs

- 2.05 We are required to provide an opinion on the statements contained within the Annual Report for the Council's Direct Labour and Direct Service Organisations. Scottish Office Circular (8/96) issued in March 1996 amended the required financial objective from a 6% rate of return on capital employed to the achievement of a break even position.
- 2.06 We note that all DLO/DSO operations have achieved the required financial objective of break even and, as a result, our audit opinions are unqualified.

SECTION III – FINANCIAL STATEMENTS**Basis of Preparation of Annual Accounts/Financial Statements**

- 3.01 The Council's financial statements need to comply with the Code of Practice on Local Authority Accounting in Great Britain, a Statement of Recommended Practice ("the SORP"). This is in accordance with the Scottish Office circular 5/1985 which indicates that local authorities should follow recommendations made by LASAAC regarding the form of accounts and accounting practice.

Audit Adjustments to the Financial Statements

- 3.02 As a result of our audit work, adjustments to the format of and figures within the financial statements were made in respect of the following principal items :

- Movement of £162,000 between the bank and creditors' balances per the Council's year end reconciliation (paragraph 4.09);
- Adjustment of £700,000 to the housing revenue account (HRA) disclosure for "capital funded from current revenue". The SORP requires that capital funded from current revenue should be included under expenditure in the HRA with the corresponding entry being made through the General Fund capital financing reserve; and
- Adjustment of £757,000 to the consolidated revenue account to include the gross income and gross expenditure for approved projects financed by funds and earmarked reserves.

These adjustments reclassify items within the accounts and do not impact the results of the CRA and HRA.

Financial Performance 2000/2001

- 3.03 The outturn on the Consolidated Revenue Account was a deficit for the year of £611,000 and, in addition, the Council transferred £364,000 from the Housing Revenue Account reserves and utilised a substantial proportion of brought forward General Fund Reserves to cover the deficit. As a result, an accumulated surplus of £85,000 is being carried forward to 2001/02.

SECTION III – FINANCIAL STATEMENTS (CONTINUED)

Financial Performance 2000/2001 (Continued)

3.04 The movements from original budget are analysed as follows:

	£'000	£'000
Original forecast budget deficit (to be funded from brought forward surplus)		(351)
Supplementary estimate re: feasibility study for Education project		<u>(110)</u>
Revised forecast budget		(461)
Increased income from:		
Savings in loan charges	800	
Collection of Council tax and community charge	150	
Contribution by DLO/DSOs	389	
Underspend on projects funded by Special Islands Needs Award	468	
Other	<u>39</u>	
	<u>1,846</u>	
Increased expenditure from:		
Education services	1,164	
Transport and property services	529	
Foot and mouth precautionary measures	132	
Reduction in central support allocation to HRA	<u>171</u>	
	<u>1,996</u>	(150)
Actual reported deficit		<u>(611)</u>

3.05 The unbudgeted expenditure incurred by both the Education Department and Transport and Property Services was not fully anticipated until relatively late in the financial year. At February 2001 the Education service had forecast a projected variance of £518,000 compared to a final outturn of £1,161,000 for the year. This eventual overspend has been reported to the Strategic Policy Committee as being attributable to the following principal headings:

	£'000
Catering, cleaning and janitorial costs	272
New opportunities funds	112
School transport	376
Anticipated savings not achieved	417
Other	<u>(13)</u>
	<u>1,164</u>

SECTION III – FINANCIAL STATEMENTS (CONTINUED)**Financial Performance 2000/2001 (Continued)**

- 3.06 At February 2001, the Transportation and Property Service had forecast a projected overspend of £446,000, compared to a final outturn of £529,000 for the year. This eventual overspend has been reported as being attributable to the following:

	£'000
Roads: salt and grit charges	122
Property services: employee costs and underbudgeting	154
Contract services: underbudgeting, operational deficits and unrecovered costs	<u>253</u>
	<u>529</u>

- 3.07 The extent of the adverse variances reported at the year end, and the significant increase in these variances between the February reporting cycle and the year end suggests that improvements in budgetary control are required. The need for these improvements is particularly important given the small level of General Fund surplus carried forward at 31 March 2001 which may be available for offset against any potential future deficits.

In our 1999/2000 report to members we made a number of recommendations on the council's budgetary control arrangements. In particular we recommended that:

- Management should seek to improve budget phasing for all areas of income and expenditure.
- Management should implement budget reporting variance analysis at a service level for cost inputs.
- Members and management should consider requesting a regular monitoring report from each of the service departments reporting their progress in implementing material savings initiatives.

We consider that limited progress has been made in 2000/01 in implementing these recommendations.

We note that the Council is currently undertaking an overall review of the individual service department budgets and budget monitoring processes. **Members should monitor management's progress in achieving improvements in the current budgeting system and consider recommendations arising from the review.**

Submission of Accounts

- 3.09 The Council was required to submit a copy of the Abstract of the Accounts to the Controller of Audit by 30 June 2001 and we were pleased to note that this target was achieved.

SECTION III – FINANCIAL STATEMENTS (CONTINUED)**Audit Process**

- 3.10 The financial statements and supporting schedules were presented to us for audit within the agreed timetable. While a small number of areas within the statements did not originally comply fully with the requirements of the SORP, these were discussed with the Director of Finance and the majority amended. Areas of detailed non-compliance will be reported in our final management letter.
- 3.11 The target date set by the Accounts Commission for the completion of the audit was 30 September 2001 which was achieved.
- 3.12 As in previous years, we have continued to note an improvement in the working papers provided to us by the Council during the course of the audit. This year we are particularly pleased to report that detailed plans were prepared by the finance department which assisted in the timely preparation of the accounts and our audit.
- 3.13 We are grateful for the time and assistance made available by the Director of Finance and his staff during the audit process.

Application of FRS 11 – Impairment of Fixed Assets and Goodwill

- 3.14 Financial Reporting Standard “FRS 11 – Impairment of Fixed Assets and Goodwill” is intended to ensure that fixed assets are recorded in the balance sheet at no more than their recoverable amount. An impairment of a fixed asset occurs due to an event which reduces the value of the fixed asset.
- 3.15 During 2000/2001 the Council has identified two asset impairments during the financial year. These relate to Hermitage Academy (£6,071,112), and Campbeltown swimming pool (£511,326).
- 3.16 Both of these impairments were deemed to reflect a general fall in the economic benefit of the asset. Hermitage Academy was identified as impaired after an independent structural survey which followed complaints from concerned parents and staff, and Campbeltown swimming pool was closed following the identification of structural defects and the presence of asbestos materials within the building.
- 3.17 In accordance with FRS 11 these impairments have been recognised as an expense in the service revenue accounts, and have also been reflected in the asset management revenue account to avoid the need for the impairment costs to be met by council tax payers.
- 3.18 In 1999/2000 an asset revaluation was undertaken by the Council’s Estates department. This resulted in an uplift of £1.9 million to the valuation of Hermitage Academy. This year, following the independent structural survey and revaluation, an impairment of £6.1 million has been recognised. **Management should reconsider the procedures for obtaining rolling revaluations and identifying impairments, with a view to minimising fluctuations in asset values from one year to the next.**

SECTION III - FINANCIAL STATEMENTS (CONTINUED)**Application of FRS 12 – Provisions, contingent liabilities and contingent assets**

- 3.19 Financial Reporting Standard “FRS 12 – Provisions, contingent liabilities and contingent assets requires that appropriate recognition criteria are applied to provisions and contingent assets and liabilities and that the disclosure enables users of the accounts to understand the nature, timing and amount of such items. A provision should only be recognised when there is :
- a present obligation arising from a past event;
 - probability that a transfer of economic benefits will be required to settle the obligation; and
 - probability that a reliable estimate can be made of the amount of the obligation. FRS12 tightens the rules for the creation of provisions, contingent liabilities and contingent assets by applying more rigorous criteria.
- 3.20 The Council has made provision in 1999/2000 in respect of insurance claims and legal actions relating back to the former Strathclyde Regional Council. Glasgow City Council advised the Council during 1999/2000 of these liabilities, and have provided supporting details for expenditure against the provision arising during 2000/2001. The value of the closing provision is £0.33m and we are satisfied that this provision complies with FRS 12.
- 3.21 In 1999/2000 we reported that the Council had appointed Enviros Aspinwall to perform a specialist valuation of the waste management landfill sites as part of the Public Private Partnership (PPP) proposal. At that time they identified that significant costs would need to be incurred to bring the land up to the required environmental standards. Following the signature of the waste management PPP contract with Shanks Group plc in September 2001, the potential liability for the environmental costs has been largely assumed by the PPP contractor. The Council has assumed that the estimate of costs not covered by the contractor will be funded by the Council. This has been disclosed as a contingent liability in the accounts.

SECTION III – FINANCIAL STATEMENTS (CONTINUED)**Application of FRS15 – Tangible Fixed Assets**

- 3.22 “FRS 15- Tangible Fixed Assets” has a significant impact on the way that the Council accounts for its fixed assets and results in the Council’s accounts moving more into line with Generally Accepted Accounting Practice (“GAAP”).
- 3.23 The main difference between GAAP and previous practice related to the treatment of depreciation. The most immediate impact is that Local Authorities are no longer able to use the argument that, as fixed assets are regularly repaired and maintained, no depreciation needs to be charged on fixed assets.
- 3.24 We have noted that the Council has applied depreciation across their Building Assets for the first time during 2000/01, the in-house valuer having attributed useful economic lives to these assets to comply with the standard. Building depreciation recorded in the consolidated revenue account has increased by £3.6 million. While the introduction of FRS 15 will increase the total depreciation charge in a local authorities accounts, the accounting is such that charges do not result in higher expenditure that has to be met by council taxpayers.

Revaluation of Assets

- 3.25 The current system of local authority capital accounting was implemented from 1 April 1994. As part of this process all assets included on the balance sheet are required to be formally revalued at least every five years.
- 3.26 In recognition of this, the Council has commenced a rolling programme of revaluations during 1999/2000 continuing this exercise through the financial year 2000/2001 and forward into 2001/2002.
- 3.27 During 1999/2000 the Council revalued 82% by value of its fixed asset balance as at 1 April 1999. This consisted of two main exercises performed by the District Valuer and the Council’s own estates department, both in accordance with the Statement of Asset Valuation Practice and Guidance Notes of the Royal Institute of Chartered Surveyors.
- 3.28 This exercise has been extended during the 2000/2001 financial year, to date the District Valuer has valued the Council housing stock, and the Council’s estates department has revalued other properties including non-operational properties. Of these, the Council opted to revalue those classified as ‘major’ properties, i.e. those with a book value in excess of £1 million during 1999/2000, extending this to include primary schools and other non-operational properties during 2000/2001. This has resulted in £44.5 million (125 properties) being subject to valuation during the year.

SECTION III – FINANCIAL STATEMENTS (CONTINUED)**Revaluation of Assets (Continued)**

- 3.29 As a result, there remains approximately £38.8 million of the Council's property and land (401 properties) which have not been revalued within the last five years. While the Council has not yet achieved full compliance with local authority capital accounting guidance, we understand that formal plans are in place to address the outstanding revaluations during 2001/02. **Management and Members should ensure that the rolling programme of fixed asset revaluations is completed as soon as practical and that, in future, all assets are revalued at least every five years.**

Fixed Asset Register

- 3.30 Our audit tests have identified a number of assets in the fixed asset register with nil book value, which are not in the Council's ownership. **An exercise to identify and remove these assets from the register should be undertaken as soon as possible.**
- 3.31 Non-operational assets are disclosed in the March 2001 accounts at a carrying value of £15.5 million. This figure includes £6.8 million in respect of two outdoor centres leased to independent operators. **We consider these assets should be included as operational assets subject to depreciation and an adjustment should be made to correct this classification next year.**

FRS 17 – Retirement Benefits

- 3.32 The Accounting Standards Board published FRS 17 - Retirement Benefits on 30 November 2000. The standard introduces a completely different methodology of accounting for pension costs and obligations for employers that operate defined benefit pension schemes. Up to and including 2000/2001 the SORP has required pension benefits to be accounted for in revenue accounts on the basis of contributions payable to pension schemes for that year, plus the amounts of benefits payable to pensioners in the year in relation to pay as you go elements.
- 3.33 The new accounting model for defined benefit schemes in FRS 17 approaches pension cost accounting from a balance sheet perspective. It works on the premise that a surplus or deficit in a pension scheme (measured with reference to the fair values of the scheme assets and liabilities) should be shown on the employer's balance sheet. The overall figures in the performance statements reflect the changes in those fair values year on year. For many organisations this is expected to make material difference to reported surpluses.
- 3.34 The Council make contributions on behalf of employees into the former Strathclyde Pension Fund which is administered by Glasgow City Council, and also the Teachers Pension Fund administered by the Scottish Public Pensions Agency. Both of these funds provide members of the fund with defined benefits related to pay and service. The Council will therefore be required to comply with the requirements of FRS 17.

SECTION III – FINANCIAL STATEMENTS (CONTINUED)**FRS 17 – Retirement Benefits (Continued)**

- 3.35 The publication of FRS 17 has given a new impetus to resolving the differences between the SORP and UK GAAP for pension cost accounting. The standard has a long implementation period and the new figures do not need to be recognised in the financial statements until the year ending 31 March 2004. However for organisations that defer implementing FRS 17 until it becomes mandatory, progressive footnote disclosures are required for the following:
- For the amounts ended 31 March 2002 – disclosure relating to the closing balance sheet amounts that would be recognised under the accounting requirements of the FRS; and
 - For the year ended 31 March 2003 – disclosure relating to opening and closing balance sheet amounts, together with profit and loss and statement of total recognised gains and losses amounts that would be recognised under the accounting requirements of the FRS.
- 3.36 **Management should ensure that procedures are implemented in readiness for the application of the Financial Reporting Standard 17 – Retirement Benefits in future years.**

Best Value Accounting

- 3.37 The 2000/2001 SORP adopts best value accounting, through the implementation of Section 2 of the Best Value Accounting Code of Practice. The Best Value regime should have a substantial and direct impact on authorities, with consequent changes in the way in which the statement of accounts is complied with, and the additional information that should be included therein.
- 3.38 The most notable changes to the abstract of accounts are as follows:
- Net cost of services to include Specific Grant Income;
 - New line of “Unapportioned Central Overheads”; and
 - New line of “Corporate and Democratic Core”.
- 3.39 It would appear from our testing that the Council has complied with the revised requirements arising from the Best Value Accounting Code of Practice. The 2000/2001 consolidated revenue account has adopted the revised disclosure requirements, with the exception of disclosing a line relating to ‘unapportioned central overhead’. The Council undertook a review of the basis of their overhead charges during 2000/2001, revising the basis of their charges. They have therefore assessed that there are no unapportioned overheads within the 2000/2001 abstract of accounts.

SECTION III – FINANCIAL STATEMENTS (CONTINUED)

Central Support Recharges

- 3.40 The Council apportions the central administration costs to individual service departments in an effort to reflect the full cost of providing the service. We reported in 1999/2000 that the structure of both service and central administration departments had changed significantly during the past few years and we recommended that management, in light of these changes, should reconsider the basis of allocating central administration costs.
- 3.41 This exercise was commenced through 1999/2000, and work continued on the basis of apportionment through 2000/2001, with the model being applied to the 2000/2001 abstract of accounts.
- 3.42 Our review of the new allocation process, which is based on a number of spreadsheets, concludes that it appears to be labour intensive to apportion the service department costs in line with the agreed service level agreements. **Consideration should be given to automating this process further, improving the timely allocation of overhead charges through the 2001/2002 financial year.**

SECTION IV – FINANCIAL SYSTEMS AND INTERNAL CONTROL FRAMEWORK**Overview**

- 4.01 We have discharged our audit responsibility in this area, principally by reviewing the monitoring, application and certain computer controls in the main financial systems and assessing the effectiveness of internal audit .

Interim Management Letters and Follow Up of Previous Final Report

- 4.02 As part of our normal audit process for 2000/2001, we have submitted previously two Management Letters. These letters identified recommendations for improvements in financial controls and accounting and processing systems which were operating within the Council. Only the more significant of these recommendations require to be brought to the attention of Members and these are detailed in the following paragraphs.
- 4.03 We also identified that management had not yet fully implemented all of the agreed recommendations made in our 1999/2000 Final Report to Members. Of the 19 recommendations, 14 had been actioned for implementation at the year end, with the remaining 5 due to be addressed during 2001/2002.

Budget Setting and Budgetary Control

- 4.04 In order to properly review and manage the operations of the Council, it is essential that a comprehensive budgetary control system is in place. This system should ensure that timely reporting of financial performance takes place at all levels and action is taken to investigate and act on variations from budget. Budget holders should receive timely and accurate information to allow this. As part of our audit, we ascertain and assess the operation of the Council's budget setting and budgetary control arrangements. Our comments below relate to our findings prior to the year end.
- 4.05 As in 1999/2000 we noted that the Council's monthly budgetary control reports included a comparison between the actual expenditure to date and budgeted expenditure to date. In our Interim Management Letter we made a number of recommendations that could be further developed and may improve current budget monitoring.
- 4.06 In particular, at the time of our review (November 2000) we noted that the Transport and Property DSO had only reported on unfavourable variances, and that the Education Department's committee finance report had only explained the total variance when this appeared to relate to variances across a number of budget lines.
- 4.07 In addition we also noted that there was no formal reporting of the variances arising from the Corporate and Democratic Core. **Members should monitor management's progress in implementing the recommendations made to improve both the level of financial information provided to members, and the formal documentation of actions arising from financial investigations.**

**SECTION IV – FINANCIAL SYSTEMS AND INTERNAL CONTROL FRAMEWORK
(CONTINUED)****Bank Reconciliations**

- 4.08 Since 1998/99 the Finance Department has made considerable efforts to improve monthly bank reconciliation processes. This was noted in our 1999/2000 Final Report to Members, and during 2000/2001 we have continued to observe an improvement in the reconciliation process with guidance notes on the reconciliations and a reconciliation pro-forma being rolled out during December 2000.
- 4.09 However, we noted the following in respect of the year end reconciliations of the Income and Housing Benefit bank accounts:
- an audit adjustment totalling £162,622, representing a movement between bank and creditor balances, was required at 31 March 2001. The impact of reconciling items on year end cut off should be formally monitored in future years;
 - elements of the Housing benefit bank reconciliation were not supported with detailed back up until after audit enquiries. It was not initially clear, therefore, whether reconciliation had been achieved.
- 4.10 **We acknowledge the improvements made this year in the overall bank reconciliation processes and recommend that the issues identified above are addressed for 2001/2002.**

Financial Systems

- 4.11 We have evaluated significant systems and associated internal controls operating within the Council to help form our opinion on the statement of accounts and have provided management with our comments on these systems and controls in our Management Letters. In practice we cannot examine every financial activity and accounting procedure, and we cannot substitute for management's responsibility to maintain adequate systems of internal control. It therefore needs to be recognised that we may not have identified all control weaknesses that may exist.

**SECTION IV – FINANCIAL SYSTEMS AND INTERNAL CONTROL FRAMEWORK
(CONTINUED)****Financial Systems (Continued)**

4.12 The main findings from our review were as follows :

- A number of key control weaknesses have been identified from our review of the Council's general computer controls, principally relating to the absence of documented procedures at a departmental level, the absence of a disaster recovery plan and weaknesses in the physical security of The Graham Williamson IT Centre. In addition we noted that formal change control procedures were not being followed, and recommended that the controls surrounding the security administration of Windows NT and Unix required to be strengthened.
- A number of routine control weaknesses have been identified from our review of the purchases and payables system, principally the absence of sufficient evidence of key reconciliations being performed, and limited formal review of reconciliations currently being undertaken.
- Controls surrounding security administration procedures need to be strengthened for the Roads and Transport costing system.

Arrangements designed to prevent Fraud and Corruption

- 4.13 To ensure proper stewardship of funds, it is essential that the Council has adequate arrangements in place to minimise the risk of fraud and corruption. These arrangements should include corporate policies in respect of the prevention of fraud and corruption on a Council wide basis as well as detailed controls at an operational level.
- 4.14 On a cyclical basis we seek assurance that certain policies and procedures exist within the Council relating to the prevention of fraud and corruption. We also rely on the detailed work performed by internal audit on the control environment. Specifically, during 2000/2001, we reviewed the work of internal audit and followed up recommendations made in previous year's management letters.
- 4.15 It is not our policy to repeat the findings of internal audit, but rather to raise with management additional matters that have come to our attention during the conduct of the audit.

**SECTION IV – FINANCIAL SYSTEMS AND INTERNAL CONTROL FRAMEWORK
(CONTINUED)****Arrangements designed to prevent Fraud and Corruption (Continued)**

- 4.16 We must emphasise, however, that the responsibility for the prevention and detection of fraud or corruption lies with management and our work does not remove the possibility that fraud or corruption may have occurred and remained undetected.
- 4.17 The Council does not have formal arrangements in place to enable staff to raise concerns through a defined channel with assured confidentiality (“A Whistleblowing Policy”). The absence of such policies and procedures increases the risk of matters of fraud and corruption coming to light and not being properly dealt with, increasing the Council’s exposure to adverse publicity and potential litigation. **We recommend that consideration should be given to implementing formal procedures for staff to raise their concerns over potential fraud and irregularity.**
- 4.18 In addition as part of our audit, we have submitted to the Accounts Commission fraud and corruption returns detailing instances of fraud during the year as notified to us by the Council. There were no matters reported on this return which we require to bring to the attention of Members.

Audit Committee

- 4.19 “Local Government Reorganisation and the Stewardship of Public Funds” published by the Accounts Commission encouraged councils to establish a mechanism incorporating the principles of Audit Committees. In a document published around the same time (“Corporate Governance A Framework for Public Service Bodies”), CIPFA also recommended that public service bodies should establish Audit Committees. A report of the Commission on Local Government and The Scottish Parliament has also commented on the advantages of an Audit Committee as a means of providing independent reassurance to councils and their electorate that resources are used properly and cost effectively.
- 4.20 We are pleased to note that the Audit Committee was established at the Council meeting of 29 June 2000 and met for the first time on 13 November 2000. It appears to us that the Audit Committee has addressed the appropriate areas in its first cycle of meetings.
- 4.21 **Audit Committee Members should continue to develop the role of the Audit Committee within the Council, monitoring Management’s progress in the implementation of internal and external audit recommendations.**

**SECTION IV – FINANCIAL SYSTEMS AND INTERNAL CONTROL FRAMEWORK
(CONTINUED)****Internal Audit**

- 4.22 As part of our normal audit approach, we have reviewed the work performed by the Council's Internal Audit function which is provided by the Council's in-house team. We considered this function from the main perspectives of audit planning, approach, execution and reporting.
- 4.23 Early in 2000/01, it was recognised that internal audit resources within the Council were likely to be insufficient to provide adequate coverage of financial systems and controls, sufficient to meet external audit expectations. With the agreement of the Council and Audit Scotland, we were asked to undertake additional audit work on systems and controls, both to provide assurance to the Council and for external audit reliance. As a result of the combined efforts of internal audit and ourselves, we consider that appropriate audit coverage of financial systems has been achieved in 2000/01.
- 4.24 We have carried out a review of Internal Audit under our value for money work conducted in the financial year, concentrating on the Council's arrangements for internal audit. The summary of our findings from this review are set out in Section VI – Value for Money.
- 4.25 In view of the value for money study findings and the temporary staffing arrangements during 2000/01, the Finance Department are currently undertaking a strategic review of Internal Audit service, and how they can deliver their annual operational plan on an ongoing basis. Professor Arthur Midwinter of Strathclyde University has conducted an independent review of the internal audit service and has presented his findings to the full Council.
- 4.26 **We understand that Members and Officers have already considered the options available to provide a sustainable Internal Audit Service. A partnership with a private sector provider has been identified as the preferred option and Members should monitor the early implementation of these arrangements.**

Section 19 of the Social Security Administration (Fraud) Act 1997

- 4.27 Section 19 of the Social Security Administration (Fraud) Act 1997, which requires claimants to supply National Insurance Numbers (NINOs) and evidence that these numbers were properly allocated to them was applied to Housing Benefit/Council Tax Benefit on 6 September 1999.
- 4.28 However, in order to ease authorities' application of Section 19, the DSS made provision for authorities to phase in the application of Section 19 for renewal cases only over a two year period. All new cases still had to comply with the requirements of Section 19 from 6 September 1999.

**SECTION IV – FINANCIAL SYSTEMS AND INTERNAL CONTROL FRAMEWORK
(CONTINUED)****Section 19 of the Social Security Administration (Fraud) Act 1997 (Continued)**

- 4.29 The responsibility for ensuring that the correct Section 19 procedures are in place rests with local authority Housing Benefit/Council Tax Benefit management. Any benefit paid on claims made on or after 6 September 1999, where the necessary NINO information has not been collected, is an unlawful payment and therefore not eligible for subsidy.
- 4.30 In 1999/2000 we reported that the Council's compliance with Section 19 of the Social Security Administration (Fraud) Act 1997 would be reviewed through our detailed testing of the 1999/2000 Housing Benefit and Council Tax Benefit grant claim. This sample testing indicated that the Section 19 provisions had been applied to Council Tax Benefit, and we were advised that the Council would introduce compliance with the Act to Housing Benefit during 2000/2001. Sample testing of the 2000/2001 Benefit grant claim indicates that this has now been implemented.

SECTION V – BEST VALUE**Introduction**

- 5.01 Best Value was introduced in Scotland in 1997, and a Best Value Task Force was established to develop the framework and timetable for implementing Best Value in Scottish councils. The Best Value Task Force included representatives of The Scottish Executive, the Convention of Scottish Local Authorities (“CoSLA”) and the Accounts Commission.
- 5.02 As part of the auditor’s statutory responsibilities, we are required to satisfy ourselves whether a local authority has in place appropriate management arrangements to secure value for money in its use of resources. With the introduction of the Best Value regime for councils, the Performance Management and Planning (“PMP”) audit has been used to review the progress that councils are making in implementing the framework set out by the Best Value Task Force.

Performance Management and Planning Audit

- 5.03 In 2000/01, the PMP audit (“PMP2”) has been carried out in accordance with guidance issued by Audit Scotland and has been applied at corporate level and within three services selected for review through agreement between the Council and ourselves. Separate reports have been prepared in respect of these corporate and service reviews.
- 5.04 A number of factors were considered in deciding on the service areas for review, including the organisational structure of the Council, the existence of a distinct service plan, clear management and reporting structures, the size of the service area and the scope of completed Best Value reviews. The following service areas were reviewed :
- Personnel Services - Health and Safety;
 - Transportation and Property Services - Transport Services; and
 - Corporate and Legal - Registration Services.
- 5.05 Each service area selected for audit was required to prepare a written submission that covered ten criteria grouped under the four PMP questions. This formed the basis for the audit.

SECTION V – BEST VALUE (CONTINUED)**Performance Management and Planning Audit (Continued)**

5.06 The results of each service review are summarised below :

	Overall Assessment of Status		
	Health And Safety	Transport Services	Registration Services
Clear leadership for a Best Value approach is provided by elected members, the Service Head and the senior management team.	A	B	B
We understand the needs, expectations and priorities of all our stakeholders.	A	B	B
We carry out effective Best Value reviews.	B	B	B
We have detailed and realistic plans for achieving our goals.	A	B	B
We make best use of our people.	A	C	B
We make best use of our assets.	A	C	B
We have sound financial control and reporting.	A	B	B
We actively support continuous improvement.	B	B	B
We monitor and control our overall performance.	B	B	B
We have an effective approach to public performance reporting.	A	B	C

Key :

- A** Sound approaches are largely in place in line with Best Value expectations.
- B** Many elements of a sound approach are in place, but with scope for some improvements.
- C** A significant level of improvement is required and this is adequately recognised in the improvement actions.
- D** A significant level of improvement is required and this is not adequately recognised in the improvement actions.

5.07 The key issues identified from these reports are summarised below. **The Council should :**

- **develop a more structured framework for reporting to stakeholders and the public;**
- **develop a system of performance indicators to enable the Services' performance to be monitored;**
- **involve stakeholders in future Best Value reviews;**
- **develop and formalise benchmarking information with similar providers; and**
- **develop effective monitoring arrangements to enable management to progress Best Value within the Services.**

SECTION V – BEST VALUE**Performance Management and Planning Audit (Continued)**

- 5.08 **Members should make themselves aware of those areas categorised C and seek regular updates to ensure management undertake the required corrective action to meet Best Value expectations.**

Prior Year Performance Management and Planning Audits

- 5.09 In 1999/2000, three service areas were selected for PMP audit (“PMP1”) and each was required to prepare a written submission covering the PMP criteria. The written submissions focused primarily on the extent to which the services met the PMP criteria in 1999/2000 and resulted in the production of a list of planned improvements to the services’ PMP framework.
- 5.10 One of the core criteria for Best Value is the achievement of continuous improvement and, as part of the PMP2 review, each service’s progress in achieving the improvements agreed in PMP1 has been reviewed.
- 5.11 The PMP follow up review is intended to assess :
- the extent to which a PMP framework is in place; and
 - whether improvement actions have been identified to address areas of weakness and what progress has been made in implementing planned improvement actions.
- 5.12 Separate reports have been produced in respect of the implementation of agreed improvement actions for Non-Domestic Rates, Sheltered Housing and Estates Management. **The key findings from these reports are as follows :**
- **develop and formalise benchmarking information with similar providers;**
 - **implement a Performance Development Review programme for all staff;**
 - **develop and report performance indicators to members; and**
 - **arrange the development of clear evaluation criteria for assessing results of consultation exercises, identifying the required resources in advance and introducing SMART objectives to measure the success of each exercise.**
- 5.13 **Members should ensure that those actions agreed by Management in relation to our Best Value reviews are implemented.**

SECTION VI - VALUE FOR MONEY**Introduction**

- 6.01 As part of our responsibilities under the Local Government (Scotland) Act 1973, we consider the overall arrangements that have been made by the Council for securing value for money (economy, efficiency and effectiveness) from its resources.
- 6.02 In terms of this responsibility, the following studies have been undertaken in relation to 2000/2001:
- Schools Property Risk Management;
 - Review of Internal Audit; and
 - Administration in Schools.
- 6.03 In addition, the following two studies from previous years are in the final stages of completion:
- Rent Arrears management; and
 - Refuse Collection.

2000/2001 VFM Studies**Schools Property Risk Management**

- 6.04 In January 1997, the Accounts Commission published "*a safer place: property risk management in schools*" ("*a safer place*"), reporting the findings of a national value for money study of property risks in schools. That report:
- Identified that crime is the major risk to school property; at that time, councils were losing some £12 million a year from property crime in schools;
 - Encouraged councils to adopt a corporate commitment to risk management; and
 - Set out a framework for action, making specific recommendations on how councils should reduce avoidable losses by taking steps to protect schools most vulnerable to property crime.
- 6.05 The study carried out in 2000/2001 follows up the 1997 study for Argyll and Bute Council, using the Accounts Commission template, providing an up to date picture of schools property crime, and reviewing the council's progress in implementing the recommendations from "*a safer place*".

SECTION VI - VALUE FOR MONEY (CONTINUED)**Schools Property Risk Management (continued)**

- 6.06 It was identified that Argyll and Bute Council has clearly implemented a significant proportion of the 1997 study's recommendations, and this may have contributed to the Council's success in reducing the level of property related crime. The national report indicates that the Council lies within the lowest 10 councils for vandalism costs per school.
- 6.07 However, many of the approaches and actions recommended in "*a safer place*" remain valid. In particular, it was identified that the Council should:
- Strengthen its organisational commitment to risk management, giving consideration to reporting to councillors the progress made in reducing property related risks.
 - Develop their corporate support for local solutions, in particular encouraging all its schools and local communities to develop a shared understanding of the need to protect schools from property crime, and support any local action that is taken.
- 6.08 A draft report that provides detailed audit findings and recommendations will be issued in the near future.

Review of Internal Audit

- 6.09 In conducting this study, the Commission wished to help councils achieve Best Value from their internal audit arrangements. The main objectives were to:
- Assess the extent to which the council's internal audit services meet the standards of good practice set out in the CIPFA Code of Practice for internal audit in local government ("the Code");
 - Promote best practice in internal audit; and
 - Make recommendations that will help the council to develop a Best Value internal audit service.
- 6.10 Based on the results of the study, the Commission has classified each council in one of the following 4 bands, according to their level of compliance with the Code:
- Band 1: Councils that most fully comply with the Code;
 - Band 2: Councils that generally comply with the Code;
 - Band 3: Councils that partially comply with the Code; and
 - Band 4: Councils that generally do not comply with the Code.

SECTION VI - VALUE FOR MONEY (CONTINUED)

- 6.11 Argyll and Bute Council was classified as band 4, the main findings being as follows:
- Internal Audit's strategic plan does not establish a clear link between the Council's corporate aims and objectives and those of internal audit.
 - Internal Audit does not have up to date documentation of the Council's main systems.
 - The lack of internal audit experience amongst the internal audit staff is a major source of difficulties. The staff often lack understanding of the objectives of the work they are undertaking and as a result, the audit work completed is inadequate to address the control objectives.
 - From our review of Internal Audit working papers, we noted that they do not contain adequate details to support findings, conclusions and recommendations. In particular, there is no clear link between the work recorded on working papers and the points raised in reports.
 - The Internal Audit Manager does not issue a formal report to the responsible finance officer on the basis for demonstrating compliance with Section 95 of the Local Government (Scotland) Act 1973.
- 6.12 These findings were relayed to Audit Scotland, who produced a national report in August 2001 that summarises the findings of the studies carried out at all other Scottish local authorities. No council complied fully with the Code, although four councils were found to comply most fully with over 85% compliance.
- 6.13 The key findings identified in the national report are summarised as follows:
- Internal audit units comply most fully with the Code with regard to maintaining independence, managing the controlling their work and promoting and maintaining professional standards;
 - Areas of the Code where many councils need to improve include clarifying terms of reference, basing internal audit work on a comprehensive risk assessment, reporting and follow up arrangements and meeting staff training and development needs;
 - Further opportunities for improvement of internal audit services exist in areas such as the introduction of audit committees, expansion in the use of information technology and more effective management of resources, and
 - All internal audit services should embrace a culture of continuous improvement.
- 6.14 A draft report which provides detailed audit findings and recommendations will be issued separately.

SECTION VI - VALUE FOR MONEY (CONTINUED)

Administration in Schools

- 6.15 Good administration is essential to the smooth running of Scotland's schools. If administration is not handled efficiently and effectively, teachers may be diverted unnecessarily from tasks which are central to teaching and to raising attainment. This study was based on "Time for Teaching" which was carried out jointly by the Accounts Commission for Scotland and HM Inspectors of Schools. It looked at the ways in which administration is handled in schools, using the three questions below as a focus for the study :

Question	Implications
1. Are there administrative tasks currently done by teachers and other staff which could give better value for money by using different methods?	Could simply doing the tasks in a different way save time or increase its effectiveness? An aspect of this question is whether a task or part of a task is needed at all.
2. Are there administrative tasks which could give better VFM with the use of information and communication technology?	Could task be handled more efficiently or effectively by using ICT more or differently? Is there enough equipment of the right type?
3. Are there administration tasks which could give better VFM if done by other people?	Do teachers need to be involved or could other staff carry out the work as effectively and at lower cost?

- 6.16 Improving administration in schools was identified by the Accounts Commission as a study following consultation with councils in Scotland. The study aims to encourage and assist councils to look at the ways in which administration is handled in schools. It focused on administration, in particular, the time it requires from teachers – time that could be spent developing materials, planning for lessons and other initiatives aimed at increasing attainment.
- 6.17 The report recommends that councils tackle at each of three levels:
- Working with schools;
 - Reviewing education department policies and practices; and
 - Working with other Council departments and external agencies.

SECTION VI - VALUE FOR MONEY (CONTINUED)**Administration in Schools (Continued)**

- 6.18 The Accounts Commission provided the Council with a choice of how to approach the self-assessment process. Either to use the methodology contained in the Accounts Commission's guide on Time for Teaching – Improving Administration in Scottish Schools or to develop its own methodology to address the Time for Teaching recommendations. The Council chose to use the self-assessment process material contained in the guide and use the results to develop an action plan.
- 6.19 The audit consisted of reviewing the Council's arrangements for developing an action plan which addresses the report's recommendations. The purpose of our review was to :
- Discuss with key personnel their duties and responsibilities with respect to the self assessment process and the development of an action plan.
 - Review a sample of evidence provided by the Council in support of their self assessment and assess whether the evidence supports the Council's self assessment.
- 6.20 **Our key findings were that :**
- **The self assessment had been performed in accordance with Audit Scotland guidance;**
 - **Each action identified had been assessed against SMART criteria (specific, measurable, actionable, realistic and time based).**

1999/2000 Value for Money Reviews

- 6.21 In our Final report to Members for 1999/2000, we advised Members of progress in respect of the reviews carried out. The current status of each review is as follows:
- Rent Arrears Management – Draft report submitted to the Council; and
 - Refuse Collection – Draft report submitted to the Council.

Members should ensure that those actions agreed by Management in relation to our Value for Money reviews are implemented.

Final Report to Members 2000/2001

SECTION VII - PERFORMANCE INDICATORS

- 7.01 It is the responsibility of the Council to ensure that, as far as practicable, the information which is published is complete and accurate.
- 7.02 There are 65 performance indicators in total, all of which have been graded by us as either 'A' or 'X' as follows:
- A - The data appears to be reliable in material respects
 - X - The lack of available systems, and/or reliable data, and/or decision rules has resulted in the authority producing information which, in the auditor's view is unreliable.
- 7.03 A number of 'X' gradings were allocated to the following indicators:
- Benefits administration – Gross administration costs
 - Benefits administration – Applicants processed within required time
 - Housing – Response Repairs
 - Libraries – Stock turnover
 - Libraries – Use of libraries
 - Roads & Lighting – Traffic light repairs response
 - Roads & Lighting – Street light repairs response
 - Social Work – Respite care
 - Social Work – Criminal Justice – Social inquiry reports
 - Social Work – Criminal Justice – Probation
 - Social Work – Criminal Justice – Community Service
- 7.04 The main reasons for these 'X' gradings may be summarised as follows:
- The system could not provide an adequate audit trail; or
 - Council staff could not provide back up details; or
 - Supporting documentation was not always retained; or
 - Council staff failed to compile the indicator in accordance with the Accounts Commission definitions.
- 7.05 In 1999/2000 and 1998/99 we reported a number of qualified performance indicators and made a number of recommendations in our Performance Indicator Management Letters.
- 7.06 These letters highlighted that there was a need to raise the profile of the performance indicator process through a greater emphasis on improved co-ordination arrangements, better quality supporting documentation, improved monitoring and a greater commitment at a departmental level.
- 7.07 The results of the 2000/01 process highlights that 11 indicators were graded as "X", of which 4 were indicators previously graded "X", four were new indicators and one changed from "A" in the previous year to "X". Our recommendations for improvements in this process are still valid this year.

SECTION VII - PERFORMANCE INDICATORS (CONTINUED)

- 7.08 We have been informed that the Council Management Team has developed a Performance Management and Planning Framework that will be rolled out across the Council during 2001/2002. This framework will encourage departments to incorporate both statutory and local performance indicators within their service plans and report upon how well the service is performing against these on a quarterly basis.
- 7.09 **Members should review the arrangements within individual departments for ensuring that qualifications on performance indicators are removed for 2001/2002.**

SECTION VIII - LEGAL MATTERS**Introduction**

- 8.01 We plan and perform our audit procedures recognising that non-compliance by the Council with statute or regulations may materially affect the financial statements. In addition, as part of our normal audit process we are alert to the legality of certain significant transactions and events with a financial consequence.
- 8.02 In considering the arrangements put in place by the Council with reference to legality, we have focused our attention on significant areas of decision making within the Council which may involve unlawful expenditure or courses of action which may be illegal and which might lead to a loss or deficiency.
- 8.03 It is emphasised that the responsibility for assessing the legality of such matters rests with management and that by reporting in this Section, we do not purport to offer advice to the Council or any other party.
- 8.04 During 2000/2001, we have assessed the Council's arrangements as they relate to legality by :
- reviewing general arrangements in place for ensuring the legality of transactions, eg, the role of the monitoring officer;
 - reviewing the minutes of the Council's principal committees;
 - holding discussions with officers;
 - having regard to the Council's implementation of significant new legislation or statutory requirements;
 - taking account of advice issued by the Accounts Commission and Audit Scotland; and
 - reviewing statutory requirements concerning the accounts.
- 8.05 In addition, specific national issues which we considered during 2000/2001 related to:
- DLO/DSO statutory targets;
 - Termination payments;
 - Debt restructuring;
 - PPP; and
 - Electors' Questions/Objections.

SECTION VIII - LEGAL MATTERS (CONTINUED)**DLO/DSO Statutory Targets**

- 8.06 We reviewed all the Council's DLOs/DSOs for the achievement of their statutory financial objective, ie, to break even. This is detailed in Section III.

Termination Payments

- 8.07 Our review included testing of a sample of individuals who had left the Council during 2000/2001 to identify if such payments existed. In addition, we also reviewed certain individual redundancy packages to ensure that these complied with standard conditions. This sample testing did not identify any specific termination payments which were outwith standard level authority redundancy packages.

Debt Restructuring

- 8.09 During the 1999/2000 and 2000/01 financial years the Council refinanced a number of their long term loans to take advantage of lower interest rates. The Council takes professional advice from their brokers in respect of these transactions.
- 8.10 The restructuring of debt often incurs either a premium or discount on the repayment of the original principal. We can confirm that the Council has complied with CIPFA's guidance on the accounting treatment of premiums, which states that the premium should be amortised over the term of the new loan.

Public Private Partnerships

- 8.11 In 1999/2000 we reported that the Department of Development and Environmental Services was at an advanced stage of negotiating the Council's public private partnership proposal for waste management within Argyll & Bute.
- 8.12 In recent years the Government has undertaken a fundamental reappraisal of waste management policy in an effort to ensure that waste is treated in an environmentally sustainable manner. This policy has significant cost implications for the Council, which until recently used landfill as the cheapest and easiest method of waste disposal. From October 1996 the government imposed a landfill tax on all waste currently taken to landfill sites and stricter regulatory standards have been introduced in relation to the landfill of waste.
- 8.13 The Council estimated that to meet future environmental targets a significant amount of capital investment would be required and submitted an outline business case to the Scottish Office in June 1998.

SECTION VIII - LEGAL MATTERS (CONTINUED)**Public Private Partnerships (Continued)**

- 8.14 The last two years have seen a number of important developments with regard to the accounting treatment of private finance initiative ("PFI") transactions. In May 1997, the "Bates" report on PFI acknowledged that uncertainty surrounding the accounting treatment was a barrier to progress and recommended that the Treasury should issue interim accounting guidance, pending the deliberations of the Accounting Standards Board ("ASB"). The Treasury obliged and published PFI Technical Note No 1 on 29 September 1997 (the "Interim Guidance").
- 8.15 Subsequently, following the publication of the ASB Application Note in September 1998 the Treasury has developed new accounting guidance, in the form of PFI Technical Note 1 (Revised) "How to Account for PFI Transactions" (the "TN"). The objective of the TN is to complement the Application Note by providing additional practical guidance for certain public sector bodies on key aspects of the Application Note. The TN was issued in final form on 24 June 1999.
- 8.16 The introduction of the Application Note and the TN has meant that we have had to consider the separability of the contract, whether SSAP 21 or FRS 5 applies and assess certain Treasury determined quantitative, qualitative and other indicators of risk transfer. We have reviewed details of the Council's preferred option and have been able to concur with view taken by the Council's independent financial advisers that the project should not be capitalised on the Council's balance sheet.

Data Protection Act

- 8.17 The main provision of the Data Protection Act 1998 came into force on 1 March 2000. The Act implements the proposals of the EU Data Protection Directive (95/46/EC) and establishes a single overall data protection framework based on the existing data protection laws. It aims to achieve a balance between an individual's rights to privacy in the handling of information about them, and information users' needs in processing information to provide the services which individuals require.
- 8.18 As part of our audit testing we assessed the Council's arrangements to assess whether arrangements appeared to be in place for:
- Staff dealing with personal information should be aware of the need for compliance with the Act; and
 - A specific officer should have been designated responsible for data protection within the Council and should ensure that all data processing within the organisation is in compliance with the terms of the Act.
- 8.19 Our review indicated that the Council has appointed a data protection officer who has taken a number of steps to address the implications arising from the Act. In particular we have noted that a series of seminars have been held within each department, with leaflets being distributed to employees to notify them of their responsibilities under the Act. In addition we have been informed that staff induction has been revised to include details of the Act.

SECTION VIII - LEGAL MATTERS (CONTINUED)

Electors' Questions/Objections

- 8.20 We did not receive any electors' questions or objections during 2000/2001 that required external audit investigation.

Report Reference	Issue	Agreed Action	Responsible for Implementation	Due Date
3.07	Members should monitor management's progress in achieving improvements to the current budget monitoring system and consider recommendations arising from the review.	Progress reports on improvements in the budget monitoring process will be submitted to the Audit Committee	Bruce West Head of Accounting	Ongoing reporting to Audit Committee For 2001/2002 revaluations
3.18	Management should reconsider the procedures for obtaining rolling revaluations and identifying impairments, with a view to minimising fluctuations in asset values from one year to the next.	The impairments identified in 2000/2001 result from more detailed structural surveys as opposed to a simple valuation. It is not practical to carry out a structural survey each time a valuation is carried out. However, valuers will be asked to identify assets where a structural survey may be required.	Bruce West Head of Accounting Nick Allen Estates	
3.29	Management and Members should ensure that the rolling programme of fixed asset revaluations is completed as soon as practical and that, in future, all assets are revalued at least every five years.	The revaluation programme will continue to ensure revaluations are brought up to date	Bruce West Head of Accounting Nick Allen Estates	Ongoing
3.30	An exercise to identify and remove assets with nil book value from the register should be undertaken as soon as possible.	This review will be carried out during 2001/2002	Tommy Armour Cap Prog Co-ordinator	31/3/02
3.31	We consider the 2 outdoor centres should be included as operational assets subject to depreciation and an adjustment should be made to correct this classification next year.	This will be carried out during 2001/2002	Tommy Armour Cap Prog Co-ordinator	31/3/02
3.36	Management should ensure that procedures are implemented in readiness for the application of the Financial Reporting Standard 17 – Retirement Benefits in future years.	Consideration will be given to the actions required to comply with FRS17, in conjunction with Strathclyde Pension Fund, and taking account of further guidance issued on its application.	Bruce West Head of Accounting	Ongoing

Report Reference	Issue	Agreed Action	Responsible for Implementation	Due Date
3.42	Consideration should be given to automating the Central Support Recharge process further, improving the timely allocation of overhead charges through the 2001/2002 financial year.	Plan to move central support allocations onto a computerized system is being developed.	Bruce West Head of Accounting	31/3/2002
4.07	Members should monitor management's progress in implementing the recommendations made to improve both the level of financial information provided to members, and the formal documentation of actions arising from financial investigations.	Reporting of progress will be covered by actions outlined in response to para 3.07. Arising from the review of budget monitoring a number of changes will be required to documentation produced as part of budget monitoring. These changes require to be implemented in each department.	Bruce West Head of Accounting Each Director	Ongoing report to Audit Committee In accordance with timetable for budget monitoring
4.10	We acknowledge the improvements made this year in the overall bank reconciliation processes and recommend that the shortcomings detailed above are addressed for 2001/02.	A review of cut-off procedure will take place for income account next year end. The issue affecting the housing benefit bank account arose mainly as a consequence of the industrial action within IT. However points raised are noted.	Bruce West Head of Accounting Donald MacVicar Head of Housing Management	For 2001/2002 year end N/A

4.17	A Whistleblowing Procedure	A Whistleblowing Procedure has been introduced as part of the Council, Public Interest Disclosure Policy and was approved by Committee after submission by Corporate and Legal Services Director, Mr N Stewart as Monitoring Officer. immediately.	Nigel Stewart Director of Corporate & Legal Services	N./A
4.21	Audit Committee Members should continue to develop the role of the Audit Committee within the Council, monitoring Management's progress in the implementation of internal and external audit recommendations.	Details of audits completed and external audit reports received will be reported to the Audit Committee. Implementation of recommendations will be reviewed as part of the follow-up process by Internal Audit with a summary reported to the Audit committee.	Audit Committee	Ongoing
4.26	We understand that Members and Officers have already considered the options available to provide a sustainable Internal Audit Service. A partnership with a private sector provider has been identified as the preferred option and Members should monitor the early implementation of these arrangements.	Progress reports on the development will be submitted to the Audit Committee.	Stewart McGregor Director of Finance	Ongoing for period of development and 3 year duration of partnership

Report Reference	Issue	Agreed Action	Responsible for Implementation	Due Date
5.13	Members should ensure that those actions agreed by Management in relation to our Best Value reviews have been implemented by Management.	Internal Audit will review progress on the implementation of Best Value Review recommendations by external auditor and report to the Audit Committee	Internal Audit Management	First report by 31/3/2002
6.21	Members should ensure that those actions agreed by Management in relation to our Value for Money reviews have been implemented by Management.	Internal Audit will review progress on the implementation of Value for Money recommendations by external auditor and report to the Audit Committee	Internal Audit Managers	First report by 31/3/2002
7.09	Members should review arrangements in individual departments for ensuring that qualifications on performance indicators are removed for 2001/02.	Each department will report on the action proposed to address the issues identified by external audit to the SPC/Audit Committee.	Each Director	31/12/2001 200
		Internal Audit will review progress on the collection of performance indicators, including departmental action plans, and report to the Audit Committee	Internal Audit Management	First report by 31/3/2002

Misc/reportreferenceauditorsbw

RESPECTIVE RESPONSIBILITIES OF MANAGEMENT AND THE AUDITOR

	Management responsibility	Auditor responsibility
General Stewardship	Accountable for the way it has discharged its stewardship of public funds.	Provides an independent and objective consideration of the stewardship function.
Controls Framework	It is the responsibility of Members and officers to decide the extent of the internal control systems which are appropriate to the Council. In this regard, a strong internal audit function is an important feature of an effective internal control system.	We assess certain control features of the Council's main financial systems and report on any significant control weaknesses that come to our attention from this normal audit process.
Fraud and Corruption	The primary responsibility for the prevention and detection of fraud and corruption rests with management.	Our responsibility is to give consideration to the arrangements made by management in this regard.
Financial Statements	The possibility for ensuring the preparation of financial statements which present a fair statement of the financial position of the Council rests with management.	We need to be satisfied that evidence from our audit testing is sufficient to give us a reasonable basis for our opinion that the financial statements present fairly the financial position of the Council at the year end and its income and expenditure for the year.
Value for Money	It is management's responsibility to ensure that arrangements are in place that are designed to achieve economy, efficiency and effectiveness in the use of resources.	We consider by examination of the accounts or otherwise certain of the Council's management arrangements for securing economy, efficiency and effectiveness in its use of resources.
Legality	The responsibility for ensuring the legality of all activities and transactions rests with management.	As part of our normal audit process, we consider the Council's arrangements for ensuring the legality of transactions or events with a significant financial consequence.

OTHER REPORTS SUBMITTED BY US RELATING TO 2000/2001

- First Interim Management Letter
- Second Interim Management Letter
- Personnel (Health and Safety) – Best Value Report
- Corporate and Legal (Registration Services) – Best Value Report
- Transportation and Property Services: Transport Services – Best Value Report
- Finance (Non-Domestic Rates) – Best Value Follow Up Report
- Housing (Sheltered Housing) – Best Value Follow Up Report
- Transport and Property Services (Estates Management) – Best Value Follow Up Report
- Performance Indicators
- Various correspondence, principally with the Director of Finance, mainly relating to technical and accounting matters

**AUDIT CERTIFICATE TO THE MEMBERS OF ARGYLL AND BUTE COUNCIL
AND THE ACCOUNTS COMMISSION FOR SCOTLAND**

As auditors, appointed under statute by the Accounts Commission for Scotland, we have audited the accounts of Argyll and Bute Council for the year ended 31 March 2001, an abstract of which is set out on pages 5 to 26.

Respective responsibilities of management and auditors in relation to the accounts

As stated on page 5, the management of Argyll and Bute Council is responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on the abstract of accounts and to report that opinion to you.

Basis of opinion

We have conducted our audit in accordance with the requirements of Part VII of the Local Government (Scotland) Act 1973 and of the Code of Audit Practice approved by the Commission. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by management in the preparation of the accounts and of whether the accounting policies are appropriate to Argyll and Bute Council's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit of the accounts so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion, the abstract of accounts presents fairly, in accordance with the accounting policies set out on pages 6 to 7, the financial position of Argyll and Bute Council as at 31 March 2001 and its income and expenditure for the year then ended.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Glasgow

20 September 2001

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ARGYLL & BUTE COUNCIL
FINANCE

AUDIT COMMITTEE
8th November 2001

**PROGRESS REPORT on EXTERNAL AUDIT REPORTS TO COUNCIL FROM
1999/00 TO PRESENT**

1. SUMMARY

A progress review regarding the implementation of recommendations raised in both the PricewaterhouseCoopers (PwC) finalised Interim Management Letter 2000/2001 and Second Interim Management Letter 2000/2001 has been performed by Internal Audit and two exception reports produced. (See Appendix 1, 2 & 3).

2. RECOMMENDATIONS

2.1 The contents of this report are noted and followed up by Internal Audit.

3. DETAILS

3.1 Appendix 1 details the reports that have been received by the Council from PwC since the Final Report to Members 1999/2000. The list uses the following headings, title of report, the month it was received, whether management comments have been collected and the date when the implementation plan was sent back to PwC.

3.2 Appendix 2 details the 10 remaining action points still to be implemented from the original 22 action points detailed in the Finalised Interim Management Letter 2000/2001. Two of the ten remaining action points relate to an implementation date of the 31st October whilst the remaining 8 are still ongoing.

3.3 Appendix 3 details the 14 remaining action points still to be implemented from the original 41 action points identified by PwC in their Second Interim Management Letter 2000/2001 of July 2001. Sound progress has been made by the Information Technology Department to implement the external audit recommendations.

3.4 With regard to the above management letters, Internal Audit has accepted management assurances that implementation has taken place. No testing has been carried out to confirm their assurances. Testing to ensure implementation has taken place will be done in quarter 4. No testing has yet been performed on the Draft Audit Management Letter 2000/2001 as it is yet to be finalised.

4. CONCLUSIONS

Implementation of recommendations will continue to be monitored by Internal Audit.

5. IMPLICATIONS

5.1	Policy:	None
5.2	Financial:	None
5.3	Personnel:	None
5.4	Legal:	None
5.5	Equal Opportunities:	None

For further information please contact Ian Nisbet, Internal Audit Manager (01546 604216)

Ian Nisbet
Internal Audit Manager 8 October 2001.
8octprogreport8nov

EXTERNAL AUDIT REPORTS

PwC Report Name	Month Received	Comments Obtained from Respondents Y/N	More Implementation Plan sent back
Systems Audit Management Letter 1999/2000	Aug-00	Y	Dec-00
Interim Audit Management Letter 1999/2000	Oct-00	Y	Mar-01
Final Audit Management Letter 1999/2000	Nov-00	Y	Jun-01
Interim Management Letter 2000/01	Feb-01	Y	Jul-01
Second Interim Management Letter 2000/01	Jul-01	Y	-
Interim Management Letter 2000/01 - Final	Sep-01	Y	-
Draft Audit Management Letter 2000/2001	Oct-01	Y	Not Yet Returned

**ARGYLL & BUTE COUNCIL
INTERIM MANAGEMENT LETTER 2000/01
SEPTEMBER 2001**

SECTION 2 - DETAILED RECOMMENDATIONS

Budgeting and monitoring

Findings	Recommendations	Management Comment	Responsible Officer	Agreed completion date	Update as of
<p>Information to Education Committee is insufficient</p> <p>Financial information and commentary on variances that have arisen is provided monthly to the Education Committee. This information is intended to enable Committee members to understand the reasons for the variances and also detail any necessary corrective action that is required. Our review highlighted a number of material variances in period 5, but the attached commentary only explains the total variance for the education department for the month. Further commentary dealing with the individual variances across the education headings would have been helpful.</p>	<p>Information supplied to Committees should be sufficiently detailed to allow an understanding of individual factors impacting variances.</p> <p>All variances should be explained and supported by an action plan detailing any corrective action to be taken.</p>	<p>A decision was taken to report information on Education for budget monitoring at a departmental total level. This decision was taken on the basis that a significant number of the variations had an impact on more than one service within the Education Department. Whilst general guidance and approach to departments on reporting of variances is the report on the main variances within each service in a department, adoption of this report within Education would have led to an increase in the number of explanations which is unlikely to have improved the overall understanding of the budgetary position of the department. Consideration will be given in future budget monitoring exercises to reporting on variances on an individual service basis within a department. However, there will be a balance between adopting this approach and providing information, which is relevant, concise and understandable to members. The Council would wish to avoid a situation whereby it is repeating similar explanations for a number of services if a summary will be more informative to members.</p>	<p>Joseph McGeer</p>	<p>22 March 2001</p>	<p>Ongoing</p>

2.01

SECTION 2 - DETAILED RECOMMENDATIONS (CONTINUED)

Budgeting and monitoring

Findings	Recommendation	Management Comment	Responsible Officer	Agreed completion date	Update as at 08/10/01
<p>2.02</p> <p>Education budget has not been appropriately phased.</p> <p>Our review of the Education monthly budget monitoring reports highlighted that a number of material variance has arisen because the budget had not been phased appropriately throughout the year.</p> <p>The budget does not therefore reflect the income and expenditure fluctuations throughout the year. This increases the complexity of departmental monitoring and variance reporting and carries a risk of misinterpretation.</p>	<p>The department should review income and expenditure patterns across the major lines of service to ensure that effective profiling of budgets can be carried out to provide a realistic reflection of departmental income and expenditure activity.</p>	<p>Finance and Education staff have undertaken a major exercise jointly. The cause of many of the phasing issues had been the expansion of new projects within the Excellence fund and the provision of funding direct to Head teachers.</p> <p>Considerable scope existed for budget holders to decide upon the spend, eg, staffing, materials or repairs. In addition, some projects required consultation with partners before plans were implemented. As the programmes become more stable, the issue will be undertaken on the timing of the invoices from other departments of the Council.</p>	<p>Joseph McGeer</p>	<p>Largely complete but will require constant attention due to the delegation of budgets to schools.</p>	<p>Ongoing</p>

SECTION 2 - DETAILED RECOMMENDATIONS (CONTINUED)

Budgeting and monitoring

Findings	Recommendation	Management Comments	Responsible Officer	Agreed completion date	Update as at 08/10/01
<p>2.03</p> <p>Absence of commentary on variance for DLO/DSO's.</p> <p>At the monthly meeting of the DLO/DSO financial monitoring committee, commentary is provided on expenditure variances. A review of the minutes of the meeting for the period ended 30 September 2000 highlighted that no commentary had been provided for the Transport Services DSO, Catering Services DSO. It appears to be common practice that where a surplus is being reported, explanations of variances are not reported.</p> <p>It was unclear from these reports whether the surplus had arisen as a result of a problem in the budget setting process or whether the surplus reported was only a short term position with future losses expected</p>	<p>Detailed commentary on all variances from budget should be reported, whether the variances are adverse or favourable, to enable lessons to be learned and action taken if necessary.</p>	<p>In terms of the first paragraph, there has been a tendency in the reporting to COB to concentrate only on those units facing potential deficits. Favourable variances should also be explained and I will remedy this in future reporting. The next report will be for the year end.</p> <p>The second paragraph is not valid since the reports contain the standard format of figures which gives projections for the year end from each DLO/DSO.</p>	<p>Alan Brough</p>	<p>31 March 2001</p>	<p>31 October 2001</p>

SECTION 2 - DETAILED RECOMMENDATIONS (CONTINUED)

Budgeting and monitoring

Findings	Recommendation	Management Comments	Responsible Officer	Agreed Completion Date	Update as at
<p>Budget monitoring not completed Council wide.</p> <p>The Quarterly Objective Summary Report details the financial position of the Corporate Democratic Core and Joint Boards. However, no explanations of variances or evidence of review are provided to the budget co-ordinator at any point in time in relation to these balances.</p> <p>Where variances are not sufficiently explained, management may be unable to take corrective action if required.</p>	<p>The Council, should ensure that all budget holding departments are provided with budget monitoring information to ensure that the financial position is recorded and reviewed regularly.</p>	<p>There are no budget holders for Joint Boards. The costs from Joint Boards are requisitions, which are fixed at the start of the financial year and do not vary. In relation to Corporate and Democratic Core this comprises mainly members' expenses costs for which there is generally little variation. However, the Head of Corporate Policy has been nominated as budget holder for Corporate and Democratic Core.</p>	<p>Alistair Bovaird</p>	<p>31 March 2001</p>	<p>Ongoing</p>

2.04

SECTION 3 - DETAILED RECOMMENDATIONS

Stocks & Stores

Findings	Recommendation	Management Comment	Responsible Officer	Agreed completion date	Updated at 08/10/01
<p>3.01</p> <p>Obsolete Stock Report not being produced.</p> <p>Our review highlighted that TPS obsolete stock reports have not been produced.</p> <p>The Head of Service should receive an annual report of obsolete stock, which should then go to the Council where write off of stock will be approved. However, this has not been done since local government reorganisation in 1996.</p> <p>In the absence of such reporting, there is a risk that the Council may be carrying the obsolete stock, which is overstating the stock balance.</p>	<p>The Council should produce comprehensive annual obsolete stock monitoring reports, which are presented to Committee for approval to write off obsolete stock on an annual basis.</p>	<p>The question of obsolete stock has been dealt with a piecemeal basis. Unfortunately, it is already too late to carry out the comprehensive survey suggested for this year and I would propose an exercise during the summer of 2002 with a report to Committee in the Autumn.</p>	<p>Alan Brough</p>	<p>October 2001</p>	<p>31 October 2001</p>

SECTION 3 - DETAILED RECOMMENDATIONS (CONTINUED)

Stocks & Stores

Findings	Recommendation	Management Comment	Responsible Officer	Agreed completion date	Update as at 08/10/01
<p>3.03</p> <p>No Monitoring Controls over DES stock</p> <p>Insufficient monitoring controls exist over stock held by the Development and Environmental Services Department. This includes Departmental and DSO stores for Leisure Management, Ground Maintenance and Refuse Collection/Street Sweeping. No stock systems are maintained, other than informal local records. Two stores in Helensburgh were identified by Internal Audit in February 2001 as not having any stock records at all.</p> <p>The absence of such controls over the stock cycle increase the risk of undetected misappropriation of items in stores, material errors or misstatements in the stock balance.</p>	<p>A comprehensive stock recording and monitoring system should be introduced in the Development and Environmental Services Department with regular stock counts taking place.</p> <p>Store staff should be fully trained in the procedure for ordering, receiving and issuing stock. This should help to ensure that these new procedures are properly implemented and operated correctly.</p>	<p>The statement at 3.03 does not accurately reflect the Stock Report, to quote the report:</p> <p>“Oban Millpark Depot where both Grounds Maintenance and Waste Management Stores are located, practices were found to be good in that an accurate record keeping system had been put in place by store staff. The system provides reliable stock records and valuable management information.</p> <p>In addition, no visits were made to Leisure Management facilities and yet 3.03 refers to Leisure Management.</p> <p>However, management welcomed the Stock Report as it highlighted several areas where substantial improvement was needed. Helensburgh stores were found not to be operating any stock system at all. Kilmory and Campbelltown stores were found to</p>	<p>Andrew Law, Head of Amenity Services</p>	<p>Ongoing</p>	<p>Ongoing</p>

Findings	Recommendation	Management Comment	Responsible Officer	Agreed completion date	Update/audit
		<p>lack accurate records due to poor record keeping.</p> <p>Two key recommendations were agreed:</p> <ol style="list-style-type: none"> 1. That a computerised stock system operating successfully in Oban should be modified to be used throughout all Amenity Services depots; 2. That a stock review is carried out with procedural guidelines issued to all stores. <p>This programme has already commenced and a revised Oban based system is currently being installed in the Kilmory depot as the first stage of extending this system to all other Amenity Services stores.</p>			08/11/01

SECTION 4 - DETAILED RECOMMENDATIONS

Treasury

Findings	Recommendation	Management Comment	Responsible Officer	Agreed Completion date	Update as at 18/10/01
<p>Treasury Management Performance Indicator Reports.</p> <p>The Finance Department have been preparing a monthly Treasury Management Performance Indicators Report on a trial basis to assess the cost and benefit associated in preparing this information. Reports were prepared on a monthly basis until October 2000. For the periods October to December 2000, there was a delay in completing the reports, although subsequent reports have been completed.</p>	<p>Management should evaluate the use and development of the monthly Treasury Management Performance Indicator Report to establish how this report will be used in the future.</p>	<p>Consideration and development of these reports will take place on an ongoing basis.</p>	<p>B West</p>	<p>Ongoing</p>	<p>Ongoing</p>

4.01

SECTION 5 – DETAILED RECOMMENDATIONS

Debtors

Findings	Recommendation	Management Comment	Responsible Officer	Agreed completion date	Update as of 08/11/01
<p>5.01</p> <p>No list of authorised signatories.</p> <p>When area office administration staff are authorising charges to the debtors accounts, there is a requirement to sign a cover sheet which includes:</p> <ul style="list-style-type: none"> • the debtors details; • the person keying in the information; and • the officer who has verified that action. <p>However, we noted that no list of authorised signatories for administrative staff exists.</p> <p>We were advised that this has arisen, as finance staff know all the administration officers who may authorise charges, and where there is a doubt, clarification is sought by telephone. However, there is a risk that new staff starting in the office might not be familiar with these signatures and it was also not possible for audit staff to confirm that signatures are as stated.</p>	<p>An authorised signatory list should be kept of administrative officers who may authorise charges to debtor's accounts.</p>	<p>Noted and will be actioned.</p>	<p>M McVicar</p>	<p>31 March 2001</p>	<p>Ongoing</p>

SECTION 5 - DETAILED RECOMMENDATIONS (CONTINUED)

Debtors

Findings	Recommendation	Management Comment	Responsible Officer	Agreed completion date	Update as at 08/10/01
<p>Debtors balances over 3 years old.</p> <p>The Council has a number of debtor balances totalling around £500,000 that are over three years old and these relate to a number of small balances.</p> <p>As the length of time that an amount remains outstanding increases, there is a reduced likelihood that the balance will be collected.</p>	<p>These items should be investigated and collection progressed. Where this is not possible, consideration should be given to writing these amounts off as uncollectable.</p>	<p>The balances are being pursued or where the Department has no back up papers. Written back to Department.</p> <p>In addition, agreement being sought from the Chairman of P & R to employ debt collection agency/recovery to collect outstanding debts unable to be pursued by legal services.</p>	<p>M McVicar</p>	<p>April 2000</p>	<p>Ongoing</p>

5.02

SECTION 8 – DETAILED RECOMMENDATIONS

Fraud & Corruption

Findings	Recommendation	Management Commitment	Responsible Officer	Agreed completion date	Update as at 08/10/01
<p>8.01</p> <p>Register in which staff must record any relevant interests or gifts/hospitality.</p> <p>No official register exists in which non-executive members and Directors must record any relevant interest, although these must be disclosed on their job application forms.</p>	<p>A central register for non-executive members and Directors interests should be introduced in order that this can be monitored effectively.</p>	<p>A central register is currently being prepared by Corporate and Legal Department and will be presented to the standards Committee for approval when ready.</p>	<p>Nigel Stewart, Director of Corporate and Legal Services Department</p>	<p>Ongoing</p>	<p>Ongoing</p>

ARGYLL & BUTE COUNCIL
SECOND INTERIM MANAGEMENT LETTER 2000/01
JULY 2001

SECOND INTERIM MANAGEMENT LETTER

SECTION 6: ACTION PLAN

Recommendations	Responsible Officer	Agreed Date of Implementation	Update as at 05/10/01
Service Level Agreements and maintenance contracts held with third parties should be updated on an on-going basis, have a confidentiality clause, and where relevant contain a clause regarding external dial-up.	K.Duncan	Stage 3 & 4 : End December 2001 Stage 5 : End March 2002	Ongoing Ongoing
In order to increase system resilience it is recommended that a contingency and scenario planning exercise be undertaken. This should enable a full risk assessment to be made and a detailed disaster recovery plan to be developed. This plan should then be tested and updated on an ongoing basis.	G. Wilson	End October 2001	Ongoing
It is recognised that current system reporting tools are limited; we recommend that attempts to proactively track the adequacy of system and network resources be undertaken on a regular basis.	A.Allen	End September 2001	End October 2001
Formal key performance indicators for the IT department should be established and reported to management on a regular basis.	G.Boyd	End September 2001 End December 2001	Ongoing Ongoing
Controls over the Council network should be strengthened.	A.Connelly	End October 2001 April 2001	Ongoing

SECOND INTERIM MANAGEMENT LETTER

SECTION 6: ACTION PLAN

Recommendations	Responsible Officer	Agreed Date of Implementation	Update as at 05/10/01
Escrow agreements should be obtained for all specialised major applications.	K.Duncan	End July 2001	Ongoing
A procedure for ensuring that user documentation is updated should be implemented and maintained on a regular basis.	A.Allen & D.Bailey	End September 2001	Ongoing
A formal change control procedures should be adopted and adhered to for all system changes.	A.Allen	End October 2001	Ongoing
Users should be locked out after three invalid login attempts and that the "/usr/admin/lastlog" file be used to identify users who may no longer require access to the UNIX operating system.	D.Bailey	End July 2001	Ongoing
The number of staff with Root access should be tightly restricted and the method for communicating privileged system passwords to these users should be reviewed. In addition, restrictions regarding FTP access should be implemented and this facility should only be granted where necessary for staff to carry out their roles and responsibilities.		End August 2001	Ongoing

SECOND INTERIM MANAGEMENT LETTER

SECTION 6: ACTION PLAN

Recommendations	Responsible Officer	Agreed Date of Implementation	Update as at 05/10/01
<p>A review of controls over dial-up access should be undertaken and improvements made. Examples are:</p> <ul style="list-style-type: none"> • Third party vendors could have a bank of modems, which would only be switched on after a formal request for access. • Dial-in passwords could be alphanumeric, changed on a regular basis and not be recorded by the administrator of these accounts. • Restrictions on the use of dial up networking should be included within third party contracts and all dial-in requests should be formally recorded. • Dial-up access could be monitored and failed login attempts formally recorded and investigated. <p>Users should be reminded of the importance of enabling the pin number on their Nokia mobile phones.</p>	<p>A. Connolly</p>	<p>End December 2001</p>	<p>Ongoing.</p>

ARGYLL & BUTE COUNCIL
FINANCE

AUDIT COMMITTEE
8th November 2001

PROGRESS REPORT ON INTERNAL AUDIT PLAN 2001/2002

1. SUMMARY

An interim progress report has been prepared covering the audit work performed by Internal Audit during the second quarter of 2001 – 02. The objective of this report is to advise members of the progress made with the annual audit plan. (See Appendix 1).

2. RECOMMENDATIONS

2.1 The Committee is asked to approve the progress made with the annual audit plan for 2001 - 02.

3. BACKGROUND

3.1 The report contained in Appendix 1 lists the audits scheduled for the financial year 2001 –2002 and details the progress that has been achieved to date with the annual audit plan. The report is set out under the following headings, planned audits with audit reference, the name of the audit, percentage complete, planned, actual and remaining audit days. The last column headed comment gives a commentary for each audit.

3.2 In the 1st quarter of the financial year the focus for Internal Audit was external audit work. This continued into the 2nd quarter when we were requested to cover additional work for external audit. Assistance was therefore given in respect of Performance Indicators.

3.3 Internal Audit in the 2nd quarter carried out Follow up Reviews and this lead in some cases to additional work and additional reporting. Internal Audit was also involved in a number of Special Investigations (See Appendix 1).

3.4 As indicated in the previous report to members Core Financial Systems and Departmental Audits were covered in the 2nd quarter. It is envisaged that for the remainder of the financial year Internal Audit effort will be predominately focused on Core Financial Systems and Departmental Audits. An indication of when audits will be covered is given in the comment column of Appendix 1.

4. SUMMARY OF 2nd QUARTER AUDIT ACTIVITIES FOR 2001 - 2002

4.1 Through the 2nd quarter Internal Audit staff numbers remained constant at 4. In addition 3 contract auditors were employed in the 2nd quarter to help deliver the audit plan. This gave the section a substantial boost in professional input. Their employment was initially for a period of two months however, 2 contract auditors were retained for the month of September.

4.2 As can be seen from the report set out in Appendix 1, the remaining audit day requirement for quarter's 3 & 4 totals 569. An analysis of available audit staff days

for quarter's 3 & 4 revealed that after consideration for maternity leave for a member of staff, deductions for holidays and an estimate for sickness, available staff days totalled approximately 443 for quarter's 3 & 4. This leaves a shortfall of 126 audit days. Two contract auditors have therefore been retained for the 3rd quarter.

- 4.3 A total of 212 days was set aside within the annual plan for external audit work. Of the 212 days a total of 92 days were allotted to Stock and Year End work, 40 days to Housing Benefit Grant Claim work and 80 days to Performance Indicators. In the 2nd quarter a further 20 days were incurred on stock in reviewing stock sheet and shelve accuracy across Council stores. This brought the total stock audit days used to 57 leaving a balance of 35 days for the second half of the year. Assistance on Performance Indicator work was provided to external audit out with the programme of 80 days. This resulted in an extra 56 days to that originally planned.
- 4.4 With regard to Housing Benefit Grant Claim, audit work is now scheduled to begin in November 2001 when the Housing & Social Work Department are promised to have finalised the claim. External audit has already carried out some systems testing of the grant claim and therefore this should reduce our level of audit work to less than the 40 audit days planned.
- 4.5 Of the 5 Core Financial Systems Audits scheduled for review this financial year, 2 have been carried out. In both audits actual days expended compared favourably to plan. The remaining 3 audits are scheduled for the 4th quarter. (See Appendix 1).
- 4.6 The 2nd quarter saw the commencement of Departmental Audits with a total of 87 audit days expended on 5 audits out of a total of 18 planned audits. Of the 5 audits 3 are now at draft stage with the remaining 2 due to reach draft stage by the end of October 2001. In 2 out of the 3 audits actual days used compared favourably to planned and the remaining audit reaching draft stage well ahead of plan. As can be seen from Appendix 1 further audits are scheduled for the remainder of the financial year.
- 4.7 A total of 120 days were set-aside in the audit plan for Contingency/Special Investigations. The actual days incurred for the 2nd quarter totalled 30 days thus bringing the total expended to 72 days for the first half of the financial year. This therefore leaves a balance of 48 days available for the second half of the financial year.
- 4.8 Audit days were incurred in carrying out Follow up Reviews in the 2nd quarter with some requiring additional work and reporting. (See Appendix 1). As a result the 50 days allocated within the audit plan was surpassed. There is no Follow up Review work identified for the 3rd quarter.
- 4.9 A total of 42 days was set-aside within the plan for a risk assessment review in partnership with the Council's external auditors. This review was not carried out due to year-end pressures. At present this task has been put on hold.
- 4.10 A small amount of staff training was delivered in the 2nd quarter. Training was secured for 2 staff members through the Council's own Personnel sections in house report writing course. The staff found this rewarding. Although we are interested to secure further professional Internal Audit training from the Institute of Financial Professional Accountants (IPFA), they have not progressed their

training package beyond the introduction stage, which the staff attended in the 1st quarter. IPFA have said that more advanced training will be available in the near future.

5. CONCLUSION

Progress is being made on audits planned for 2001 – 02.

6. IMPLICATIONS

- | | | |
|-----|----------------------|---|
| 5.1 | Policy: | Update on audit plan for 2001 – 02. |
| 5.2 | Financial: | The audit plan is based on existing budgeted provision. |
| 5.3 | Personnel: | None |
| 5.4 | Legal: | None |
| 5.5 | Equal Opportunities: | None |

For further information please contact Ian Nisbet, Internal Audit Manager (01546 604216)

Ian Nisbet
Internal Audit Manager 8 October 2001.
08octprogreport8nov

REF.	AUDITS	% COMPLETE	Annual Plan Audit Days	Used Audit Days	Remaining Days	Comment
EXTERNAL AUDIT WORKS						
External	Stock Taking Y/End TPS / DES	100	92	57	35	Y/End signed off. Additional assurance tests of stock accuracy at Council Depots..
External	Housing Benefit Grant Claim	*	40		40	Due to start when the claim is completed by Housing & Social Work Department in Nov.
External	Performance Indicators	100	80	138	-56	Assistance with additional PI work for external audit
	TOTAL		212	193	19	
CORE AUDITS						
Core	Budgetary Control	*	40		40	Audit start date Jan - Mar 2002
Core	Capital Contracts	95	53	61	-8	Draft report stage. Four separate departmental reports will be issued.
Core	Creditors Payments	100	40	43	-3	Final report issued
Core	Housing & Council Tax Benefits	*	40		40	Audit start date Jan - Mar 2002
Core	General Ledger Operations	*	40		40	Audit start date Jan - Mar 2002
	TOTAL		213	104	109	
DEPARTMENTAL AUDITS						
CE15	Car Leasing	95	30	11	19	Draft report stage.
TPS51	Contract Vetting	*	20		20	Audit start date Oct - Dec 2001
TPS49	Contractors conditions Tendering etc	*	20		20	Audit start date Oct - Dec 2001
CLSO2	Collection of Fines & Fixed Penalties	*	20		20	Audit start date Jan - Mar 2002
ED05	Secondary Schools	*	30		30	Audit start date Oct - Dec 2001
ED20	School Meals Income	*	30		30	Audit start date Oct - Dec 2001
DES02	Waste Disposal (Income)	*	20		20	Audit start date Oct - Dec 2001
DES01	Refuse Collection (Income)	*	20		20	Audit start date Oct - Dec 2001
FD27	Fixed Asset Management	*	30		30	Audit start date Jan - Mar 2002
FD26	Loans Fund	*	30		30	Audit start date Jan - Mar 2002
HSW14	Elderly Accommodation	*	30		30	Audit start date Oct - Dec 2001
HSW15	Home Care (Income)	*	30		30	Audit start date Oct - Dec 2001
HSW09	Unified Benefits Systems - Housing	95	30	33	-3	Draft report stage.
IT09	Review of Adhoc Systems in Front Line Departments	60	20	13	7	Ongoing to be finished in October.
IT06	Disaster Recovery Procedures Proposal	*	20		20	Audit start date Jan - Mar 2002
TPS35	DLO Roads Job Planning & Manpower Allocation	95	20	22	-2	Draft report stage.
TPS28	Parking, Piers & Ferry Income	*	20		20	Audit start date Oct - Dec 2001
VFM01	Stock Holding v Direct Purchase	40	30	8	22	Ongoing to be finished in October
	TOTAL	*	450	87	363	
CONTINGENCY / SPECIAL INVESTIGATIONS						
ASI16	Housing & Social Work Department investigation review.	100	*	1	*	Complete no report required. Review of HSW work.
ASI33	Phone Bills	100	*	45	*	Complete. Further work was done to establish that recovery of personal call costs was being carried out by Departments.
ASI34	Insurance Claim	100	*	8	*	Complete final report issued
ASI35	Fuel Investigation	100	*	11	*	Complete final report issued
ASI36	Materials - Islands	25	*	4	*	This investigation is live at present.
ASI37	Revenues Investigation	100	*	3	*	Complete final report issued
	TOTAL	*	120	72	48	
FOLLOW UP REVIEW						
AAF01	Advice to Finance	100		1	-1	Advice to Income Section.
AFI01	Fraud & Irregularity - External Audit	100		2	-2	External report completed for PwC.
ASI19	PwC Letters to Members	100		11	-11	Follow up review of agreed implementation plans and preparation of reports.
ASI28	TPS Catering IS	100		2	-2	Follow up to ensure that Information Systems delivery is ongoing.
ASI30	Registrar Funds	100		11.5	-11.5	Follow up work for a Police investigation.
ASI31	School Funds	100		1	-1	Follow up of implementation plan.
DES19	DES Stock & Material Control	100		15	-15	Follow up of implementation plan. Further report issued.
EDU07	DMR Unit Budgeting	100		1	-1	Follow up of implementation plan.
HSW24	Specific Grant Applications	100		4	-4	Follow up of implementation plan.
HSW25	Grant Mental Illness	100		8	-8	Follow up of implementation plan.
HSW27	Social Work Grants	100		4	-4	Follow up of implementation plan.
TPS12	Reports & Information	100		1.5	-1.5	Follow up of implementation plan.
	TOTAL	*	50	62	-12	
NEEDS ASSESSMENT						
		*	42	0	42	
	TOTAL DAYS		1067	518	559	